

COOPERATIVE BANKING

A Credit Union Book

BY
ROY F. BERGENGREN

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THIS BOOK IS DEDICATED
TO

EDWARD A. FILENE

WITH ONE PHASE OF WHOSE
EMINENT PUBLIC SERVICE
IT IS PRIMARILY CONCERNED.

ACKNOWLEDGMENT

To the Coöperators:

The friendly coöperation of many people has made this book possible and to them I extend most sincere and deeply appreciative thanks.

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In the last analysis, as I have elsewhere indicated, I owe to Edward A. Filene not only the opportunity to write the book but the urge to write it as an attempt to help forward the high purpose to which he has contributed so much of splendid effort.

If the book has any value, it is because all these folks and many more have made the material of which it is composed available.

ROY F. BERGENGREN.

PREFACE

The purpose of this book is to explain certain phases of coöperative banking as exemplified by the credit union, with some reference to other types of coöperative banks. This explanation involves certain matters which are of national concern. Thrift promotion is one of them; the elimination of usury, another. What can be done for the individual snared by the loan shark and in perpetual bondage to the money lender?

It concerns also the short-term credit problem of the small farmer, who mortgages his prospective crop at exorbitant rates of interest that he may buy needed supplies.

Some consideration will be given in it to the waste of small savings in "wild cat" speculation and how such savings might be diverted into legitimate channels, to work so effectively that the temptation to speculation might be permanently eliminated. The book has to do with hoarded savings—vast totals of useless capital now, like the talent of silver of the Third Servant, buried in the ground.

Finally it has to do with supplementing the banking system by the extension of various systems of coöperative banking so that banking service may be brought to the great masses of the people. So

much is involved—so many vital things—that the temptation to attempt such a book is too difficult to resist.

ROY F. BERGENGREN,
Boston, Massachusetts,
September 14, 1922.

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COÖPERATIVE BANKING

A CREDIT UNION BOOK

COÖPERATIVE BANKING

CHAPTER I

CREDIT UNION THEORY AND PRACTICE

This book is concerned with the credit union as an exemplification of the possibilities contained in co-operative banking. While the credit union is its primary concern, it has to do directly and indirectly with other types of coöperative banking and the whole is designed to illustrate what are the essential principles involved in the subject and to demonstrate in a practical way, by a study of various phases of credit union activity and experience, just what may reasonably be expected from a development of coöperative banking in the United States.

Reference will be made in some detail to the extraordinary progress of the system of building and loan associations, and to the development of labor banks of the coöperative type so ably initiated by the Brotherhood of Locomotive Engineers in Cleveland. Primarily, however, the book is an explanation of credit union origin and purpose and a discussion of the problems of national importance which are necessarily involved in any attempts to bring banking service to the masses of the people.

Our immediate subject is essentially two-sided. One phase of it is necessarily statistical and more or less technical—the other has to do with the human relationships involved. Unfortunately it is first necessary to get before the reader something of the purpose and method of credit union organization and the extent thereof, before the possible bearing of the subject on such problems as thrift—usury—small farmers' credit difficulties—coöperative buying—"wild-cat" speculation—and, finally, democracy and banking—can be appreciated. With this arrangement in mind the first discussion has to do with the theory of the credit union and enough of the practice to illustrate the theory.

What Is a Credit Union?

Millions of people in the United States have no money in any bank. More millions are without legitimate credit resources. Are the individuals without savings to blame for their apparently improvident condition? Is the general economic system at fault? Does the difficulty lie with the banking system as at present established?

The credit union is based on the theory that the banking system needs supplementing by the development of a plan which will specialize in the smallest individual units of saving and, at the same time, concern itself with problems of small credit, collectively of great importance, but individually so small that existing banking facilities cannot cope with them except at substantial loss. As the lack of legitimate credit always results in the practice of usury it may be said

that the credit union seeks to promote thrift and to eliminate usury.

The Massachusetts Credit Union Law defines a credit union as "a corporation formed for the purpose of accumulating and investing the savings of its members and making loans to them for provident purposes." Arthur H. Ham and Leonard G. Robinson, in their book entitled "A Credit Union Primer," published by the Russell Sage Foundation in 1914, offer this definition: "A credit union is a coöperative association whose objects are (1) to promote thrift among its members and (2) to provide its members with credit facilities."

An excellent description of credit union purpose is contained in the April, 1922, issue of the Southern Agriculturist in an article by Roy H. Thomas of the North Carolina State Department of Education. Discussing the fine service being rendered by the rural credit union at Lowe's Grove, North Carolina, Mr. Thomas writes: "The Union is based on the principle of self-help and the financial strength of the community is mobilized for the use of those who live in it."

The credit union has been called a "bank in miniature." It is a bank scaled down to the possibility of universal service. It has to do with both branches of banking business—with savings and with credit—and its importance as a means of thrift promotion does not exceed its possibility of value as a means of bringing legitimate credit facilities to the masses of the people.

The credit union is in no sense a proposed substitute for some existing system of banking. It is a possible supplement to all existing agencies for promoting

thrift and creating credit resources. It seeks to make depositors of millions who do not now deposit and to bring credit facilities to more millions who, when the demand for credit presses, must now have recourse to charity when it is available or to the usurer, who is still pretty much always available. This field is wide open. To an amazing extent it is still virgin soil. Some part of it has been cultivated to limited extent, most of it not cultivated at all.

The purpose of this book is to set forth such conclusions as may reasonably be drawn from the relatively modest credit union development to date as to the availability of the system for the broadest possible application.

Method of Organization

As credit unions are authorized by state laws and no two laws are, in all particulars, alike, methods of organization vary in unessential details. Certain general principles are, however, well fixed. For example, jurisdiction for purposes of examination and control always vests in some department of the state. Generally the Department of Banks has authority in the matter of granting credit union charters and supervising them after they begin to do business. In North Carolina, where a rural credit union development was contemplated, the law, very logically, vests jurisdiction in the Department of Agriculture.

The Petition

In any event the first step in the organization of a credit union is a petition or application for a charter

addressed to the Department having control. The petitioners need be but few in number, the Massachusetts law providing, for example, that "any seven citizens" may initiate the effort.

After the petition or application is filed a hearing is held or some investigation made to determine the fitness of the particular group in question to organize and successfully conduct a credit union.

If the result of this investigation is favorable to the petitioners they are so notified and the organization meeting is held, for the purpose of adopting by-laws and electing officers. Here again the process is not uniform. In some states the organization meeting is held and the by-laws submitted with the application for the charter, but it would seem to be better practice to await the determination of the examining body before perfecting the organization. After the by-laws have been adopted they are submitted for examination and, after they have been approved, the charter issues and the credit union is ready for business.

Later in the chapter we will follow through the organization of a typical credit union in order to visualize this process and to indicate something of the details involved.

Officers

The officers provided for a credit union parallel closely similar officials in a bank. There is always a Board of Directors. A Credit Committee, generally of three members, is provided to pass on loans and a Supervisory Committee, which has, in addition to the usual functions of an auditing committee, rather

extraordinary powers of supervision. This Committee is responsible, for example, not only for a general oversight over the books of the credit union and the way and manner in which the business is being conducted, but also for the general conduct of the other officers towards their individual and collective responsibility. The Board of Directors and the Committees are chosen by and from the members.

The Directors elect, from their own number, a President, a Vice-President, a Treasurer and a Clerk, the two latter offices being sometimes combined. The Treasurer is also, generally, the Manager and, as such, the active, directing head of the corporation.

A Completely Coöperative Organization

It is interesting to note that the credit union is completely coöperative. Membership is predicated upon the subscription to at least one share and the payment of the initial installment thereon together with the entrance fee. It is an organization of members, in which each member has a single vote, whether his holdings in the credit union be great or small. The money is accumulated from the membership or, if non-members are allowed to make deposits (which is rarely the case) they have no voice in the management and no rights to borrow. The money is used for loans to the members and all resulting profits are divided in interest on deposits and dividends on shares unless the members may determine to devote the profits to a more rapid accumulation of reserve resources. The management, as has been indicated, is entirely within the membership.

Safeguards

The credit union, as has already been pointed out, is associated with some supervisory state department. It is examined at least annually and may be closed for cause. Reports are required. This official connection between the credit union and the state is the first safeguard. The Supervisory Committee is the second. This Committee may, by unanimous vote, remove any or all officers, members of Boards and Committees, and then call the members together to determine what shall be done. While this power is almost never exercised the fact of close supervision from within is a powerful adjunct to the equally close scrutiny from without. There is another equally substantial safeguard in the law. Officers cannot borrow according to the provisions of most credit union laws. This removes the temptation which has been the ruination of so many banks, namely, the manipulation of the funds by those in control for personal profit. Loans are repayable in small installments, payable at frequent intervals and the purpose of the loan is important and must be closely scrutinized. Other provisions in typical credit union laws will be noted in subsequent chapters. They all have to do with the promotion and assurance of honest management.

Low Operating Expense

It is obvious that the credit union, dealing in small units, must operate at a minimum of expense. With this necessity in mind it is quite generally provided that the members of the Board and the members of

the Committees, as such, cannot be paid. As the individual credit union grows in size and assets the manager may receive a modest salary if the members so vote and, obviously, when a credit union gets as large as the Massachusetts Telephone Workers' Credit Union, for example, the business of six thousand members involves the necessity of additional clerical assistance. But it seems to be a fact that in the credit union plan there is something which inspires men and women to unselfish service. Credit union development is primarily due to the fine capacity for this particular sort of public service which may be found wherever a successful credit union is doing business.

When the credit union is located within an industrial unit the office space is most generally donated, along with the modest equipment which the credit union needs. Every effort is made to keep operating expenses as low as possible, with the somewhat extraordinary results indicated later on in this chapter.

How Are the Funds Accumulated?

Money is accumulated by the issuance of shares and the acceptance of deposits. At this point, the credit union becomes strictly a specialist. It appreciates the fact that saving can become universal only when some system operates conveniently for the individual who can save only in small individual amounts. If this man's saving is to become appreciable it must result from the formation of the habit of saving.

Credit union shares are therefore payable in cash or generally in small weekly or monthly installments. The installment unit may be very small. In some

urban credit unions it is ten cents—rarely is it larger than twenty-five cents. Deposits are also received, the minimum acceptable deposit being also very small.

No Appreciable Paid-up Capital Stock

No appreciable paid-up capital stock is required as a condition necessarily precedent to doing business. This is fundamentally important.

In Massachusetts, for example, a credit union may start with seven original members, each of whom has subscribed for one share and paid the first installment thereon. If this group has decided that shares may be paid for in ten-cent installments and have voted that the entrance fee shall be ten cents it becomes apparent that a credit union may start in Massachusetts with an initial paid in capital of one dollar and forty cents. I know of no credit union which ever made quite so humble a beginning, but the largest credit union in North America, which now has assets well in excess of a million dollars, started with an initial capital of twenty-six dollars. This principle is fundamental. The average credit union originates within a group which could not accumulate an appreciable paid-in capital stock in advance of organization. Utah has what purports to be a credit union law, but the fact that it requires initial paid-in capital stock of material amount, coupled with the further fact that shares are payable in cash, has resulted naturally in its complete failure to accomplish credit union purpose. To call such a law a "credit union law" is clearly a misnomer and has caused some confusion in the minds of investigators who have failed to make such analysis

as is necessary to accurately determine just what a credit union law is.

The entrance fee is small, twenty-five cents being the average amount. Small fines are charged for failure to repay installments on loans when due and, in some credit union laws, fines are also charged for failure to pay installments on shares when due.

Reserve Fund

A reserve fund is created by the annual appropriation to it of a substantial percentage of the net earnings (in Massachusetts 20 per cent) and by the addition to it of entrance fees and, in some instances, fines and transfer fees. This practice varies, some credit unions preferring to build up their reserve fund more quickly by appropriating to it a larger percentage of the earnings than the law requires. There seems to be already an increasing tendency in credit unions to place emphasis on "dividends of service," as distinguished from "money dividends," which tendency, together with its significance, is discussed in detail later.

Convenience of the Members

Again, in the rôle of a specialist, the credit union recognizes that certain other things are fundamental in its business. The bank of the smallest saver must be conveniently located. If the workman cannot leave his work or otherwise get to the bank without resulting loss and inconvenience greater than the amount he would deposit, then the bank must come to the workman. This is true quite generally of the type of saver

who utilizes the credit union. Therefore the credit union office is located in the most convenient place for those who are served by it and adapts its business schedule to the members' convenience. In a factory or store, for example, the credit union "office" (which consists generally of a corner, a desk, a chair and a file) is frequently located in close proximity to the paymaster's window, and the credit union is always open on pay day. I received a letter recently from the Treasurer of a small rural credit union who tells me about his experience in making loans at times convenient for the farmers who belong to his credit union. One time he got out of bed at three in the morning to accommodate a farmer on his way to market.

All Credit Committees are so organized that they can act quickly on a loan application. In every way the effort is made to make it possible for the members to get service under such conditions as fit in with the convenience of the member.

A Normal Supplement to the Banking System

Credit union business is done through some bank, chosen by the Directors at their first meeting as the depository. In the bank the credit union makes its deposit and keeps its cash balance. I have in mind one credit union which did over a million dollar business through its bank last year.

Use of Credit Union Funds

The money accumulated in credit unions is used for loans to members. Any surplus over and above

the amount needed to meet the loan requirements of members may be kept on deposit or invested in such conservative investments as meet with the approval of the supervising state official. The purpose of the credit union is, however, to keep the money working as effectively as possible for the members. Just how this is done is also indicated in subsequent chapters. It is at this point, as will later be indicated in detail, that the credit union locks horns with usury, and, by the creation of credit resources, becomes in many other interesting ways effectively useful for its members.

Loans to Members

Each credit union decides the limit which it will place on unsecured loans and the limit, if any, on secured loans. The assignment of shares in a credit union and the endorsement of the members' notes by fellow members comes within the classification of "security." Character loans are not infrequent, the credit union making the member's character and reputation in the community and among his co-workers negotiable. It is not essential that the prospective borrower have shares in the credit union when he applies for the loan. If eligible to membership he must join, taking out at least one share and paying the first installment on it. The Credit Committee then passes on his application. In this case it is general practice to require of the borrower, in the event that the loan is granted, that he subscribe to some proportionate part of the loan in shares so that, as he pays back his loan, he pays an additional amount representing the installment payments on his shares. When his loan is paid

up he also owns paid-up shares in the credit union. He has become a real member.

Loans are repayable in installments, pro-rated over such period as the Credit Committee may determine in the individual case.

Purpose of the Loan Important

The purpose of the loan is most important and must be set forth in the application. In North Carolina the loan must be for a productive purpose or to relieve an emergency. In Massachusetts the loans are "for provident purposes," which has been interpreted to mean such loans "as promise to be of benefit to the borrower."

Meetings of the Members

An annual meeting of the members is held at which the board of directors is elected and the membership of the committees determined and other matters of common concern to the members decided. If the law permits other than natural persons to belong, the organization having membership is represented by one person at the meeting and casts one vote.

To Illustrate

The discussion of the credit union plan has been carried far enough, possibly, so that we can now make better progress with the understanding of it by some specific illustrations of credit union methods in operation. First let us follow through the organization of a typical small credit union. It might be a bit more impressive to take the Credit Union of Central Falls

located at Central Falls, Rhode Island, which got its start among school children in a parochial school and then developed rapidly, until in a few years it has attained to large adult membership and assets of nearly \$700,000. Ste. Marie in Manchester, New Hampshire, with assets totaling an even larger amount, has had a most fascinating history. Skandia, in Worcester, Massachusetts, organized six years ago and already with assets of \$742,000, and a perfect record, is also a most interesting credit union. I prefer to take, however, the Prospect Credit Union of Cambridge, Massachusetts, which I organized eighteen months ago, because it is typical of credit union development within a small group, under the most trying conditions at a time of general industrial and financial depression. It is an urban credit union of wage workers. After discussing its formation and experience, we will take the Carmel Credit Union of North Carolina as an equally typical small credit union of the rural type.

The Prospect Credit Union

In the busiest part of Cambridge there was maintained for some years a social settlement house which had for its initial purpose bringing the university to young wage workers in the city through extension courses conducted by various members of the Harvard faculty who volunteered their services. The institution was modestly endowed and a building was provided which afforded to the members also various social and recreational facilities. It was called the Prospect Union. Early in 1921 some of the members of the Union became interested in the possibility of organiz-

ing a credit union to which not only the members of the Union would be eligible but others living and working in Cambridge. Seven of the members filed a petition for a credit union charter with the Bank Commissioner. A hearing was held by the Board of Bank Incorporation which, in Massachusetts, consists of the Bank Commissioner, the Commissioner of Corporations and the State Treasurer, and the petition was granted. The organization meeting was held at the Union building on Saturday evening, February 26. The petitioners were representative of the Prospect Union group, being all wage workers in Cambridge and vicinity.

At this meeting by-laws were adopted. In the first section of the by-laws the purpose of the credit union was set forth as follows. "The object of the corporation is to promote thrift among its members by giving them an opportunity to save money in small amounts and to obtain loans at moderate rates for purposes which promise to be of benefit to the borrower."

We held our first meeting in a small room generally used for classroom purposes, and it lasted far into the night as one section of the by-laws after another was debated and finally determined; a group of twelve, most of them relatively young men, none of whom had had any experience in the management of money but all of whom were in dead earnest.

As each credit union operates in a more or less limited field and determines in its by-laws its exact limitation, this group provided that its "membership is limited to those who are members of the Prospect Union Association of Cambridge, members of the Pros-

pect Union and their families and residents of the City of Cambridge," a rather broader than average membership limitation.

It was determined that shares should have a par value of \$5, payable in cash or in weekly installments of 25 cents on each share subscribed and that the minimum acceptable deposit be 25 cents. As it was later decided that the entrance fee be 10 cents, membership in the Prospect Credit Union involves a minimum initial outlay of 35 cents.

After considerable debate the members decided that a fine of 5 cents per week on each dollar or fraction of a dollar remaining in arrears on both share payments and repayments on loans should be levied and so provided in the by-laws.

Provision was further made governing the method of applying for loans and an appeal to the directors from the decision of the Credit Committee in an individual case provided, with the limitation, however, that the directors must vote unanimously to set aside the decision of the Credit Committee.

Each credit union determines in its by-laws how many directors it will have, the minimum limit, however, generally being five. The number is determined by a survey of the field to be covered. A credit union director, in addition to being a director in the ordinary sense, is also a salesman. It is his business to interest new members. If the credit union is organized within an industrial unit, for example, this number is generally determined by the number of departments into which the plant is divided and the directors so chosen that the entire plant will be represented. In the par-

ticular case of the Prospect Credit Union it was decided to have nine directors, a Credit Committee of three members and a Supervisory Committee of like number.

The by-laws also provide the length of term of officers and committees, in this case designated as three years and so arranged that some officers come up for election at each annual meeting. In the by-laws the members outlined certain specific duties for the Board and the Committees. Further, it was provided that the credit union could itself borrow money, but only if the members so voted and then with the approval of the Directors and the Bank Commissioner. This power, as will be described in detail in later chapters, is of the utmost importance, particularly with the small rural type of credit union, where it is possible for the credit union to get substantial credit by virtue of the group responsibility in cases where the individuals composing the group would not be able to get credit. The value of collective as against individual credit or the creation of a source of credit by pooling individual credit, made possible by credit union organization, is one of the greater possibilities of service contained in the credit union plan.

The Credit Committee, according to the provisions contained in the by-laws of the Prospect Credit Union, "determines the security or guaranties which, if any, shall be required for the loan, the terms on which it shall be repaid and the rate of interest which shall be charged." The duties of the President, Vice-President, Clerk and Treasurer are carefully outlined and the business which may be transacted at the annual meet-

ing described. This includes the determination by the members of the maximum number of shares which may be held by any one member, the maximum deposit, if any, which a member may make, the amount of the entrance fee for the year and the proportion of the profits which shall be set aside to the reserve fund. It is also provided that the members may declare a dividend, and, subject to certain conditions, amend the by-laws. •

The next business before the organizers, after adopting the by-laws, was the election of the first Board of Directors and the Committees. The officers elected were then duly sworn to the faithful performance of their respective duties. As the first meeting is treated as an annual meeting the members then proceeded to determine various matters pertaining to the business of the credit union for the first year. It was voted that no limit be placed on the number of shares which an individual member might hold. This is quite customary. As has been noted, a member has but a single vote so that nothing is gained by limiting the number of shares which he may hold. Similarly, it was voted that no limitation be placed on an individual's deposits. The maximum unsecured loan was fixed at \$50 and the maximum secured loan at \$500. It was voted that the entrance fee be 10 cents. The meeting of the organizers thereupon adjourned. Immediately thereafter the newly elected Board of Directors met to elect officers. Mr. Denis F. Mockler, who had been for some time prominently identified with the Prospect Union and is, by trade, a boss baker, was elected Treasurer and has managed the credit union since its incep-

tion. It was voted to bond the Treasurer in the sum of \$1000, and a bank of deposit was chosen. The Directors thereupon adjourned and the by-laws were forwarded to the Bank Commissioner for his approval. As soon as this approval was secured a charter issued to the organizers and the Credit Union opened for business.

On the opening night fifteen members joined and subscribed to thirty-five shares, the total receipts being \$100.40. While this was a very modest beginning it compares very favorably with the beginnings of the first credit union in North America, which was organized in Levis, in the Province of Quebec, Canada, in 1900, and has since done business amounting to more than twelve million dollars. The Levis credit union, as has been indicated, started with initial capital of \$26.

The Prospect Credit Union started out in a most courageous way. Massachusetts was on the verge of a great industrial and financial depression and the Credit Union membership had to be recruited from wage workers, many of whom were working but part time and, as the depression became more acute, unemployment became increasingly general. In fact this Credit Union has not yet had the advantage of operating in normal times. Under Mr. Mockler's wise and careful management it grew in six months, despite all handicaps, to a membership of sixty-four and assets of \$2600. By September 1, 1921, it had outstanding loans of \$1900. It plugged along, maintaining a steady development, and, at the end of its first twelve months, had a membership of ninety-six, assets of \$4770, and

loans outstanding of \$4500. At the time of its first anniversary \$3400 represented the investment of the members in shares, and \$850 the total of the members deposits. I have just received the July monthly statement of the credit union, which indicates the following condition seventeen months after the credit union was organized, practically all of which period has constituted what is unpopularity known as "hard times."

The first parallel columns indicate the month's business (July 1-August 1, 1922) and remaining tabulations indicate the present assets and liabilities.

<i>Receipts (July, 1922)</i>		<i>Disbursements (July, 1922)</i>	
Shares	\$329.15	Shares withdrawn	\$55.15
Deposits	170.00	Deposits withdrawn	137.00
Repaid on loans	691.50	Loans made	900.00
Interest received	90.00	Expenses	32.30
Entrance fees .....	.40	Refund on interest	8.00
Service fee .....	.65	Balance on hand Aug. 1st.	61.00
Cash on hand July 1st..	10.00	Cash in bank Aug. 1st....	501.26
Cash in bank July 1st..	403.01		
<hr/> Total .....\$1,694.71		<hr/> Total .....\$1,694.71	
<i>Assets</i>		<i>Liabilities</i>	
Loans outstanding	\$4,967.00	Shares	\$4,259.73
Interest paid	24.73	Deposits	802.92
Expense account	166.45	Interest received	497.80
Cash on hand Aug. 1st..	61.00	Fines .....	.30
Cash in bank Aug. 1st..	501.26	Guaranty Fund	48.05
		Service fees	12.20
		Undivided earnings	99.19
		Transfer fees .....	.25
<hr/> Total assets ....\$5,720.44		<hr/> Total assets ....\$5,720.44	

This constitutes "banking in miniature."

Mr. Mockler devotes his noon hours, without charge, to the management of the "bank." He is, as he expresses it, "carefully feeling his way" and is laying the

foundation for what will eventually be a very large, influential and useful community credit union. Thus far every loan has been repaid promptly, which is indicated by the small total of fines paid, and there have been no bad loans. I asked Mr. Mockler as to the nature of the loans and he said:

"We have been going through a pretty tough time. Lots of our people have been out of work. Many of our loans have been made to help members out of work, particularly with household bills. Then again, small merchants are beginning to come in and we are helping them with their credit problems. The hardest case I can recall offhand involved a woman who used to run a boarding house. Her husband had left her with a couple of children to support. Her boarding house was going along well when she got sick and had to go to a hospital for an operation. She had to store her furniture and when she got out of the hospital she had no money to pay the storage charges and owed for her children's keep and some other bills. She tried to get help here, there and everywhere without success. Finally she came to the credit union. Living in Cambridge she was eligible to membership and finally we made her a loan. She got her furniture out, paid up some small bills that were bothering her, got her family together and started in business again. The Credit Committee decided not to require any repayments for two months so that she could get on her feet. Now she is making her payments regularly and doing as well as she did before the operation."

That is typical credit union service.

The Rural Type

Leaving the urban type for the moment, let us briefly examine a typical North Carolina rural credit

union. In subsequent chapters the small farmers' credit problem and something of the very essential service which the credit union may eventually render to small farmers will be discussed at length. The general plan of the North Carolina Credit Union Law and something of how it came to be enacted is also reserved for later discussion. For the following data relative to a typical North Carolina rural credit union I am indebted to W. H. Pharr, the Secretary-Treasurer of the Carmel Credit Union, who writes of it as follows:

"With William R. Camp, then State Superintendent of Credit Unions, present and aiding, a meeting was held at Carmel School House, seven miles east of Charlotte, North Carolina, and the Carmel Credit Union was organized and opened for business January 25, 1916. To begin with, fifty-three members joined and subscribed for fifty-five shares of stock, \$217 being immediately paid on shares and \$150 on deposits. Shares have a par value of \$10 and may be paid in quarterly installments and, in addition, an entrance fee of 25 cents was agreed upon. In our Credit Union all may deposit, men, women and children, but only shareholders can borrow. We also have some other interesting features connected with our method of operation. For example, while our shares have earned, since the Credit Union was organized, 8 per cent annually, we have preferred to place the net earnings, above the 10 per cent legally required for the guaranty fund, to a surplus account. Shares costing \$10 in 1916 are now worth \$14.80, and the credit union stock and deposits, besides being a good investment, have been doing a splendid community service. In addition, if we do not have enough money to take care of worthy applicants for loans, credit union notes are put up at the National

Bank, and face value is secured on this paper for from six to twelve months, with the endorsement of the credit union officers. Money has been secured in this way most of the time at 5 per cent and we are permitted to charge an additional per cent above the interest rate we have to pay.

"As to the sort of service we render, I might call attention to the fact that between January 1 and June 30, 1922, our loans aggregated \$5960, and were for purposes which resulted in aggregate savings to the borrowers of \$611.50, or better than 10 per cent. Fertilizers are purchased through the Credit Union in carload lots. This single item totaled \$2465, and resulted in a net saving of approximately 20 per cent to the borrowers. The remaining loans classified, roughly, as follows: for farm labor, a milk truck, for food and feedstuffs, cows and other live stock, farm machinery, education, to help members hold cotton until they could at least break even on it, etc. The loans varied from thirty days to twelve months and averaged \$220. During this period \$1200 was borrowed from the National Bank and there were no delinquent borrowers.

"Since this Credit Union was organized loans have been made totaling \$40,793. The most recent Credit Union statement indicates assets as follows:

<i>Assets (June 30, 1922)</i>	
Shares	\$2,869.48
Deposits	895 34
Interest received	211 04
Guaranty fund	171.11
Surplus fund	508 15
Total	<u>\$4,655.12"</u>

Again it becomes self-evident that we are dealing with miniature banks. If the amounts involved seem small it must be remembered that great indeed is the difference between money and no money, and that this

book does not deal with big financial problems involving millions in dollars but with the acute credit needs of millions of people. I have in mind a letter received recently from a small rural credit union detailing a loan to a young farmer of enough money to buy his first cow, which loan he repaid in milk checks, a transaction which could hardly interest a bank but which had vitally to do with the progress of a man.

"We buy," writes Mr. Pharr further, "all fertilizers, lime and quite a lot of seed, such as soybeans, peas, etc., in bulk and for cash, and thus save our members considerable sums. Our annual expense is \$120."

Summarizing his impressions of the value of the Carmel Credit Union, Mr. Pharr concludes:

"The outstanding benefits are: First, the great saving to the farmers in interest money. Heretofore time prices plus high interest have cost the farmers thousands of dollars on fertilizers and supplies, oftentimes taking up all that they had made when it came time to pay up in the fall of the year; second, the encouragement it gives to all in the rural sections, including children and women, to deposit their money. Children have started systematic savings accounts, looking forward to accumulating funds for an advanced education; third, as a community builder, as a social and economic service it encourages thrift, economical buying and wise investment. It makes character."

Carmel is typical of the North Carolina rural credit unions which will be discussed in detail in the chapter devoted to the North Carolina law and the possible value of the credit union plan to small farmers.

Illustrating the Possibility of Thrift Promotion with Large Groups

Thus far we have talked in small amounts. Larger totals result when the membership of the group is more extensive. This possibility of larger development is indicated by the following statistics covering the mother credit union at Levis and some of the larger credit unions in the United States. It will be noted that none of them has been operating for an extended period, and none of them started more auspiciously than the Prospect Credit Union already described.

	<i>Members</i>	<i>Assets (July, 1922)</i>
La Caisse Populaire de Levis (Can., 1900)	1192	\$1,088,762.82
St. Marie Credit Union (N. H., 1900)	3300	842,135 30
Central Falls Credit Union (R. I., 1915)	1868	688,974.00
Skandia Credit Union (Mass., 1916)	1820	714,848.20
Telephone Workers Credit Union (Mass., 1917)	6000	403,000.00
Municipal Credit Union (N. Y., 1916)	4712	347,720.00

Adding them up indicates that these six credit unions have a total membership of nearly 19,000 and assets of better than \$4,000,000.

Small Ones Work as Well

On the other hand, all credit union laws recognize the desirability of promoting thrift within small groups. In some states the number of organizers need be but seven, in others eight, and in all credit union states the required number is small. In North Carolina, where the credit unions are organized within sparsely settled farming districts, the credit unions are of necessity very small, the largest of them having but a hundred members. I have in mind a very interesting and useful little credit union organized within a

group of less than fifty women who are almost all in the business of keeping house for their respective families. They thought that they could save a bit and make more advantageous purchases if they had a fund to draw on and from which they could make loans. They organized a credit union which had assets in less than a year of \$1200. Two of the housewives run it, Mrs. Tubman and Mrs. Zarling, and, when the credit union was examined by the Bank Commissioner recently, he found that they were doing an extremely good job at it.

Types of Credit Union Organization

Credit unions are organized within groups and capitalize the *esprit de corps* which it is possible to develop within a group, particularly if the preëxisting bond of common interest is strong. The rural credit union, limited to a certain village or district, is apt to become the social center of the community and fits in logically as a fundamental part of the community equipment. Credit unions within church parishes have proven most successful for this same reason.

The following credit unions illustrate, in part measure, the variety of credit union organization:

<i>Name of the Credit Union</i>	<i>Its Nature</i>
Municipal Credit Union	Employees of the City of New York
Clemson College Coöperative Credit Union	Vocational students—Clemson College, S. C.
Valdese Credit Union	Farmers of Valdese, N. C.
State Employees Credit Union	Employees of State of Massachusetts

<i>Name of the Credit Union</i>	<i>Its Nature</i>
New York Life Credit Union	Employees of the New York Life Insurance Co
Central Falls Credit Union	Community Credit Union—Central Falls, R. I.
Worcester Central Labor Credit Union	Members of a labor union
Japanese Credit Union	Japanese residents of New York City
Lowe's Grove Credit Union	Farmers of Lowes Grove, N C.
Federal Employees Credit Union	Federal employees, New York
Polish National Credit Union	Polish residents, Chicopee, Mass.
Workers' Credit Union	Finnish residents, Fitchburg, Mass.
St. Anne Credit Union	Members of a church parish, New Bedford, Mass.
Maine Telephone Workers' Credit Union	Telephone workers—state of Maine
Social Service Credit Union	Members of a Settlement House, Boston, Mass.
Central Credit Union	A group of housewives, Cambridge, Mass.
American Express Credit Union	Employees of an express company, New York.
Hebrew National Credit Union	Jewish community credit union, New York.

Typical Industrial Credit Unions

The credit union plan has been tried sufficiently within representative and well established industrial units in Massachusetts so that it may reasonably be

concluded that credit unions within mills, factories and stores will work extremely well. The following list is representative of this type of credit union:

<i>Name</i>	<i>Where Located</i>
Walworth Credit Union	Walworth Mfg. Co., Boston, Mass.
D. M. C. Credit Union	Dennison Mfg. Co., Framingham, Mass.
Hamilton Credit Union	Hamilton Woolen Co., Southbridge, Mass.
Neponset Credit Union	Bird & Sons Co., Walpole, Mass.
Hygrade Credit Union	Hygrade Lamp Co., Salem, Mass.
Lowell Bleachery Credit Union	Lowell Bleachery, Lowell, Mass.
Gilco Credit Union	Gilchrist Co., Boston, Mass.
F. C. A. Credit Union	Wm. Filene's Sons Co., Boston, Mass.
Etsco Credit Union	E. T. Slattery Co., Boston, Mass.
Waltham Watch Credit Union	Waltham Watch Co., Waltham, Mass.
Farmanco Credit Union	Farrington Mfg. Co., Boston, Mass.
Blake & Knowles Credit Union	Blake & Knowles Works of the Worthington Pump & Machinery Co., Cambridge, Mass.

The Extraordinary Experience of the New England Telephone and Telegraph Company

It has remained for the employees of the New England Telephone & Telegraph Company to demonstrate

CREDIT UNION LEAGUE FORM 17			
REPORT		Credit Union	
MONTHLY REPORT OF BUSINESS AND EXPENSES			
Month of <u>August</u> 19 <u>22</u>			
RECEIPTS		DISBURSEMENTS	
Shares	879.85	Shares Withdrawn	180 -
Deposits	3 871.08	Deposits Withdrawn	2 191.87
Repaid on Loans	2 110.56	Loans Made	1 421.10
Interest Received	127.23	Interest Paid	
Fines		Expenses (itemize)	1.68
Entrance Fees	10.25	Bird and Son, Inc. Advances	1 000 -
Maintenance Fees		of July.	
Guaranty fund	5 -		
Balance on Hand <u>Aug. 1</u> 19 <u>22</u>	35.25	Balance on Hand <u>Aug. 31</u> 19 <u>22</u>	1 120.78
Balance in Bank " " 19 <u>22</u>	192.53	Balance in Bank " " 19 <u>22</u>	1 316.32
Total	\$7 231.75	Total	\$7 231.75
Balance <u>August 31</u> 19 <u>22</u>			
ASSETS		LIABILITIES	
Loans Outstanding	11 509.32	Shares	11 499.82
Interest Paid	345.04	Deposits	18 720.30
Dividends Paid		Interest Received	1 320.23
Expense Account	377.97	Fines	
U. S. Treasury Certificates	9 000	Entrance Fees	55.75
Victory Bonds	2 000	Guaranty Fund	603.82
Liberty Bonds	400	Undivided Earnings	714.33
Whitman Co-op Bank Shares	2 000	Dividend	43
Am. Tel. and Tel. Bonds	911.25		
N. E. " " "	980		
N. Y. Central R.R. Bonds	955 -		
Cash on Hand <u>Aug. 31</u> 19 <u>22</u>	1 120.78		
Cash in Bank " " 19 <u>22</u>	1 316.32		
Total	\$30 915.68	Total	\$30 915.68
Number of members at close of month <u>194</u>		Number of borrowers at close of month <u>103</u>	
Number of depositors at close of month <u>390</u>			
<u>Ben D. Rogers</u> <u>A. H. Russell</u> <u>A. H. Anderson</u> SUPERVISORY COMMITTEE		<u>A. W. Smith</u> TREASURER <u>B. R. Taylor</u> CLERK	

Courtesy of System.

ONE MONTH'S BUSINESS

Every month a report is posted in the office of the credit union operated by employees of Bird and Son. Notice the scope of activities, small expenses, and number of members.

what can be done with credit union service applied on a broad scale. The Company operates in the New England states, exclusive of Connecticut. The first credit union of employees was organized in Massachusetts in 1917. At the time of its first annual report it had 500 members and assets of \$7934.62. It has now better than 6000 members and its assets increased 85 per cent last year to a present total in excess of \$400,000. This credit union did a business in 1921 of nearly a million dollars and is composed exclusively of telephone workers. Encouraged by the success of the parent credit union and with the hearty coöperation of the executives of the Company, a similar credit union was organized in Rhode Island in 1921 to serve the employees of the Company in that state, a third in New Hampshire the same year and, under authority of a special act of the Maine Legislature, the Maine Telephone Workers' Credit Union was added in 1922. The latter credit union has, within four months of its organization, over ninety per cent of the telephone workers in Maine enrolled as members. This development has been due in large measure to the coöperative attitude of the Company, the very great organizing and executive ability of Charles F. Donahoe, president of the Massachusetts Telephone Workers Credit Union, and the sincere and effective efforts of those associated with him in its management.*

*Since the above was written and the original manuscript of this book completed, telephone workers in Massachusetts, again under Mr. Donahoe's skilled direction, and in coöperation with the Bank Commissioner, have organized the Northern Massachusetts Telephone Workers Credit Union with headquarters at Lowell, the Western Massachusetts Telephone Workers Credit Union with head-

An Important Possible Development

Frederick E. Cox, president of the Credit Union League, himself identified with the development of the Telephone Workers Credit Union, has devised a plan whereby an effort will be made to secure the coöperation of the American Legion in the organization of Legion Post credit unions on a national scale. The petition for the first of such credit unions in the United States, originating within the Back Bay Post of Boston, is now pending before the Board of Bank Incorporation, and Mr. Cox will attend the next National Convention of the Legion in a well-conceived effort to secure an endorsement of his plan.

The potential value of the credit union to ex-service men is too self-evident to need elaboration. Mr. Cox serves the Credit Union League without compensation, and if his plans work out gradually until each Legion post has its own credit union, bringing thereby legitimate credit facilities to ex-service men and promoting thrift among them, he will have accomplished a rather extraordinary national service.*

quarters at Springfield, the Central Massachusetts Telephone Workers Credit Union which has its office at Worcester, and the Southern Massachusetts Telephone Workers Credit Union, to serve the district which centers about New Bedford

*The credit union development advances so rapidly that the lapse of a few weeks between the submission of this manuscript and its final reading finds again very substantial progress in this phase of the general program. Mr. Cox succeeded in securing the endorsement of his plan by the Massachusetts Department of the Legion at the State Convention held in New Bedford in August. His plan was also endorsed by the National Convention at New Orleans in October. The Back Bay petition above referred to has been granted, and the first Legion Credit Union is in process of organization.

Among Post Office Employees

A further illustration of the possibility of credit union service is contained in the present interest of Henry S. Dennison, Director of Personnel of the United States Post Office, in a project to organize credit unions among post office employees, which plan also contemplates an eventual organization on a national scale. Mr. Dennison is thoroughly conversant with credit union value. There is an excellent credit union organized among the employees of the Dennison Manufacturing Company, of which company he is the directing head. He served on the Board of Directors of the Massachusetts Credit Union Association and believes in the credit union. The matter is already being discussed with local Welfare Councils of post office employees, and it is apparent, as this is being written, that the first credit unions of this type will soon be organized.*

Low Overhead

Two other phases of credit union operation remain to be illustrated—the low operating expense of the average credit union and their record for honest and efficient management.

Such interest in the Cox plan has developed that it may now conservatively be estimated that there will be a substantial development of Legion Post Credit Unions within the next few months.

*Since the above was written the employees of the Brockton, Massachusetts, Post Office have petitioned the Massachusetts Board of Bank Incorporation for a credit union charter which petition was granted. The Brockton Postal Employees Credit Union has been organized and is the first credit union of this type in the United States.

Credit unions operate at a minimum expense. The underlying purpose is to accumulate savings and to make them work effectively for the accumulators. Therefore all the usual accouterments of the banking business are eliminated. Naturally there are no large and ornate banking rooms, no ornamental grills, mahogany fixtures, marble floors, and fluted columns out front. Large, as well as small, credit unions operate with the utmost simplicity. In practically all credit union laws the members of the Boards and of the Committees, as such, cannot be paid, as has already been indicated. Officers may be paid when the credit union grows so large that it can no longer be operated on a part time basis, such amounts as the members in annual meeting determine. Rent is also eliminated wherever possible. In Massachusetts the credit unions maintain the Credit Union League, which has for its main purpose reducing the cost of bookkeeping and office supplies through the economies incidental to collective buying. Every effort is made to keep expenses down.

The credit union within the factory or store is, naturally, most successful in this effort to operate at low expense, because such credit unions generally have no rent to pay and have services and equipment at lowest rates. A few credit unions may be cited to illustrate this fact. (See list on page 34.)

As soon as the credit union is obliged to hire quarters the overhead of course increases. New credit unions also have a larger overhead the first year because of the organization expenses.

In a group of forty-seven Massachusetts credit

LOW AVERAGE OVERHEAD STORE AND FACTORY CREDIT UNIONS

Name	Total Business (1921)	Approximate Percentage	
		Expense (1921)	of Expense to business
Shepard Stores Credit Union....	\$16,077.	\$15 85	1/10 of 1%
Mass. Telephone Workers Credit Union	857,167.	\$7,031.00	1%
Walworth Credit Union... ..	18,167. (first year)	54.50	1/3 of 1%
Whitson Credit Union	30,697	24 55	1/12 of 1%
Blake & Knowles Credit Union ..	9,698. (first year)	2.25	1/47 of 1%
Neponset Credit Union.. . . .	60,886.	77 37	1/8 of 1%
Gilco Credit Union	54,036.	178 02	1/3 of 1%
D. M. C. Credit Union.	63,323.	130.40	1/4 of 1%
Waltham Watch Credit Union .	284,856	417 59	1/6 of 1%
American Express Credit Union	279,708.	1,928.55	2/3 of 1%
Equitable Credit Union	86,993.	115.18	1/7 of 1%
Municipal Credit Union	578,847	4,282.60	3/4 of 1%
New York Life Employees Credit Union	77,261 17	34 50	1/33 of 1%
Federal Employees Credit Union.	160,213	596.38	1/3 of 1%
Niagara Employees Credit Union.	26,770.70	47 00	1/6 of 1%

unions, including some newly organized and others where the percentage of overhead would normally be expected to be large, the average operating expense for the year 1921 to the total business transacted during the year was 1.16 per cent. The smallest percentage in the group was 1/48 of 1 per cent and the largest 2 4/5 per cent.

An examination of eleven New York credit unions, taken at random, showed an average operating expense of 8/10 of 1 per cent, the highest of the grouping being 2.75 per cent and the lowest 1/23 of 1 per cent.

The following Canadian credit unions, taken at random from the Quebec list, show the following relationship. This comparison is interesting because the credit unions in the Province of Quebec have been operating for an appreciably longer period than any in the United States. Those starred are rural credit unions and the credit union at Thetford Mines is, as the name implies, an organization of miners.

The total business of the credit unions in the Province of Quebec amounted to \$12,319,235, for the

period covered in the Quebec Statistical Year Book (1920 edition) and the total operating expense was \$27,867, or approximately $\frac{1}{4}$ of 1 per cent.

Record for Honest and Efficient Management

The original North American credit union at Levis has been operating without interruption for twenty-two years and has a perfect banking record. Its business has totaled more than \$11,000,000 and it has never yet charged off a bad loan. The first credit union in the United States, Ste. Marie, at Manchester, New Hampshire, has a similar record. Skandia of Worcester, Massachusetts, does a large annual business, having assets now approximating three-quarters of a million dollars, and has yet to suffer a loss. Passing from large to small credit unions, Lowes Grove Credit Union, of the rural type, located at Lowes Grove, North Carolina, has in six years made loans aggregating \$40,000 without a loss. In his book, containing statistical information up to 1914, Alphonse Desjardins points out

LOW AVERAGE OVERHEAD CANADIAN CREDIT UNION

<i>Name</i>	<i>Business</i>	<i>Expense</i>	<i>Approximate Percentage Relationship</i>
Levis	\$1,759,540.44	\$2,376.71	$\frac{1}{7}$ of 1%
Maria	78,475.84	415.60	$\frac{2}{3}$ of 1%
Quebec	68,156.23	929.58	1 and $\frac{1}{2}$ %
St. Euphemie *	81,425.53	175.10	$\frac{1}{4}$ of 1%
St. Jean des Piles *	78,794.33	355.00	$\frac{1}{2}$ of 1%
St. Onesime *	36,194.90	915.00	2 and $\frac{1}{2}$ %
St. Ulric *	201,807.43	245.18	$\frac{1}{8}$ of 1%
Thetford Mines	91,032.39	624.60	$\frac{2}{3}$ of 1%
Three Rivers ..	673,755.00	1,249.88	$\frac{1}{6}$ of 1%
Ste. Germaine ..	539,266.73	934.34	$\frac{1}{6}$ of 1%
St. Cajetan d'Armagh * ..	362,653.70	362.25	$\frac{1}{10}$ of 1%
Ste. Croix de Dunham... ..	25,200.70	4.00	$\frac{1}{63}$ of 1%
St. Damien de Bedford.....	21,845.84	5.00	$\frac{1}{43}$ of 1%

that the experience of the one hundred and fifty credit unions which he had been instrumental in forming, in the matter of safe loans follows quite uniformly the Levis record.

A specific illustration of the attitude of the credit union member toward his obligations, and of the possibility of management of a high order, is contained in a recent experience of the credit union organized among the city employees of the city of Boston.

The City of Boston Employees Credit Union was subjected to a most extraordinary test when the general strike of the police of Boston resulted in the discharge of thousands of police officers and the complete reorganization of the force. Several hundred of the strikers were members of the Credit Union and many of them were borrowers from it. All of these men permanently lost their jobs with the city and many of them had the greatest difficulty securing other employment. The total resulting losses from bad loans caused by this situation was less in amount than half of the Credit Union's reserve fund, and the very interesting thing is that many of the borrowers resumed payment on their loans when they got other employment. I was told recently of one case where an ex-policeman finally located in Oklahoma and then resumed repayments on his loan to the Credit Union.

In Times of Depression

As regards the general conduct of Massachusetts credit unions during the difficult period of national readjustment, the Bank Commissioner in his report for the year 1921 has this to say:

"The past year, because of general financial and industrial depression, has been one of severe trial to credit unions, and yet there were no involuntary liquidations and but one voluntary liquidation during the year" (the liquidation of a very small credit union which had been long inactive). "In spite of the fact that there were heavy withdrawals in a number of credit unions, notably in industrial centers, these institutions have emerged from the situation materially increased in numbers, strength and resources, and more substantially established in the Commonwealth than at any time since the creation of the credit union system in 1909"

The Sort of Loans Credit Unions Make—A Few Specific Illustrations

Having illustrated the type of credit union organization and something of its methods, we arrive at the second fundamental purpose of these miniature banks, namely the creation of credit facilities. The examination in detail of this phase of the subject is reserved for later chapters. It may add something to the appreciation of the credit union as a very human sort of institution to conclude this chapter on theory and practice with the stories, as told to me by credit union managers, of a few representative credit union loans. These stories are all true and, in credit union experience, most ordinary.

The Story of George—the One-Armed Veteran

George lost his arm in the war. On returning to his home town he found that his old job was adequately filled by a two-armed man who had done his fighting at home. George decided to go into the junk business

and needed \$200. He was eligible to a credit union and borrowed his initial capital from it. He has made a success of his business, repaid his loan, and is much more prosperous than he was before the war.

The Story of the Stenographic Widow

Mrs. Johnson is a widow with three children dependent on her for support. As a stenographer she earned \$20 a week. She learned of an opening in a hotel to do public stenography and borrowed from a credit union \$100 with which to buy a typewriter and other necessary equipment. Her work was so good that she received similar work from another hotel. She has more work than she can do, has repaid her loan, and more than doubled her earning capacity.

The Story of Mike

Mike was and is a fighter. When he got back from the war the doctor told him that he could no longer work at his job as a machinist because he could not stand the confinement. Mike got the idea that if he could buy a second-hand truck and equip it with certain simple machinery he could build up a business going from town to town peddling his services as a machine fixer. He borrowed the money from a credit union, paid it back, built up a substantial business, and regained his health.

The Story of What Happened This Morning

A little Italian woman came into my office this morning and, without a word of explanation, handed

me an envelope. An examination of the contents disclosed the fact that she owed a total of \$235 to several very pressing creditors. Someone had advised her to visit a budget expert in a bank and it developed that the debts were due to a long period of unemployment on the part of her husband, who is a laborer and has finally got a permanent job with a near-by city. The budget expert showed her how she should arrange her income and suggested that she visit a credit union to help her solve the immediate problem of her debts. So there she was in my office. I sent her to the Industrial Credit Union, which has a very general charter. It turns out that she can probably get endorsements on her husband's note by two neighbors and fellow countrymen and she will get the loan.

The Story of the Ambitious Student and the Loyal Sister

John was an orphan, one of five children, all of whom went to work except John, who wanted to be a preacher. He started in at a small New England College, was threatened with tuberculosis and went to the Sanitarium at Rutland. Feeling better, he started in again, this time at Yale, working his way through. He broke down and was advised to try Colorado. There it was found that he should spend an appreciable time in the mountains in order to regain his strength. His sister at this point borrowed from her credit union and loaned to him the amount that he needed. He found an apparently complete cure in the mountains and afterward became an ordained minister, and repaid his sister, who had repaid the loan to the credit union.

Conclusion

Every credit union has, in its files, many cases of this description—just the problems of average folks. An analysis of any case may indicate, possibly, that it is small business, but on every case hinges the happiness of some individual, and it is with problems like these that millions of people are vitally concerned in the United States. It is credit union theory that banking service can be brought to these people. One purpose of this book is to affirm the soundness of the theory. In this chapter enough possibly has been offered to indicate so much of credit union theory and practice as to warrant our further study of it.

First, however, the origin of the credit union is important, for the sound value of credit union organization had been firmly established abroad long before the first credit union sanctioned by law in the United States was organized in 1910.

CHAPTER II

HISTORICAL BACKGROUND

The Credit Union, unlike Topsy, didn't, "just grow." Instead, it has a most respectable ancestry with a family tree not too difficult to reproduce and a family already sufficiently established in the United States so that something of the promise contained in its possible future development is already apparent. We have considerable material now available for a study of the type of credit union law that works well, the type that works poorly and the type that doesn't work at all. From this expanding experience there should normally evolve the sort of credit union best fitted to rural conditions in this country and the type best adapted to the various necessities of the city dweller.

The Credit Union family tree works out somewhat as indicated on the next page.

All of these laws have been referred to as "credit union" laws. At least one of them (Utah) is not such in fact. Some of the others work well, some poorly, some not at all. Two of them (Virginia and Kentucky) have just been enacted. The next chapter will be devoted to a detailed analysis of the development of credit unions under the several state laws and to some discussion of the reasons why some of the laws are apparently inoperative.

Raiffeisen System
(Frederick William Henry Raiffeisen · Flammersfeld, 1849, Heddesford, 1864)

Schulze Delitzsch System
(Herman Schulze-Delitzsch Eilenburg, 1850)

A study of the two systems by Alphonse Desjardins (1885-1900) resulted in his original

La Caisse Populaire de Levis (organized by Desjardins at Levis, Quebec, Canada, 1900)

Coöperating with Mgr. Pierre Hévey, M. Desjardins organized La Caisse Populaire Ste. Marie at Manchester, New Hampshire, the first credit union in the United States, in 1909

Coöperating with Edward A. Filene and M. Desjardins, Pierre Jay, then Bank Commissioner of Massachusetts, drafted the first general credit union law in the United States in 1909 and they together secured its enactment, the first Massachusetts credit union being organized in 1910.

John Sprunt Hill (1912), member of a United States Commission investigating rural credit agencies abroad, drafted the North Carolina rural credit union law in 1915, as a result of a study of European systems

From one or the other of these sources credit union laws have been enacted in

New York	1913
Texas	1913
Wisconsin	1913
Rhode Island	1914
South Carolina	1915
Oregon	1915

Utah	1915
Nebraska	1919
New Hampshire	1921
Maine	1921
Virginia	1922
Kentucky	1922

It is beyond the scope of this book to touch more than briefly on credit union ancestry.

Frederick William Raiffeisen (1818-1888) and Herman Schulze-Delitzsch (1808-1883) by a most interesting coincidence were contemporaries. Both became interested in the same problem, Raiffeisen from the viewpoint of the small farmer, suffering for want of legitimate credit sources, and Schulze-Delitzsch from a study of similar problems among wage workers in cities. They worked along parallel lines, each accomplishing in a lifetime a system based on the same principle of coöperative effort, but applied in the one case to rural credit problems and in the other to relieve city dwellers from the exactions of the usurer.

Raiffeisen

The germ of the Raiffeisen plan is found in an organization which he founded while Mayor of Flammersfeld in 1849, for the purpose of loaning money to peasants and making it possible for them to acquire live stock on the installment payment plan. This organization was not coöperative. Raiffeisen was confronted with an acute condition. Famine was abroad in the land and peasants, when able to get credit at all, got it from the usurer and paid the price. He secured financial backing from some of the more well-to-do of his constituents, who contributed funds and retained control of the institution which their capital had made possible. As the element of self-help was lacking in this early effort at Flammersfeld its importance does not extend further than the value of the resulting experience to Raiffeisen.

In 1854 Raiffeisen founded a credit society at Heddesford, which institution, in addition to lending to peasants, performed various other social service functions. Again the fundamental credit union purpose and principle—self-help—was lacking. Thereafter, having devoted some study to the efforts being made at the same time and along similar lines by Schulze-Delitzsch, Raiffeisen started a new society at Heddesford and this time organized a coöperative institution, based on the self-help principle.

In 1869 Raiffeisen reorganized his new society, adding to the original purpose coöperative purchasing at wholesale of those commodities used in common by the members of the society. This latter plan had been tried out by a mutual credit society organized at Anhausen in 1862, partly through Raiffeisen's efforts. It may be said, therefore, that 1869 marks the real beginning of the rural coöperative credit movement. Quoting from an interesting book by the Ambassador to France, Myron T. Herrick, entitled "Rural Credits":

"Progress was slow, for he [Raiffeisen] dealt with a densely ignorant and poverty-stricken people inherently distrustful of innovations and he had to build from the very ground up . . . twenty-two new societies were organized in 1869. After 1880 the number began steadily to increase and at the time of Raiffeisen's death there were 425 of his societies in existence. Between 1890 and 1894 the growth was very rapid. In 1912 there was in Germany one rural coöperative association for every 2494 inhabitants."

Mr. Herrick's book contains the following pen picture of Raiffeisen:

"He was harsh and rigorous, with an irascible temper, easily inflamed to anger by contradiction or opposition, so that he did not have many intimate friends. He presented a stern appearance with his almost sightless eyes, but his demeanor was singularly pleasing when he relaxed himself in occasional recreation from his arduous and constant labors, or was engaged in conversation with persons who did not dispute his views. Habitually he was taciturn and moody. He had a weak voice and slight talent for public speaking, yet made a strong impression upon his audiences by the earnest and logical manner of his address. His book learning was meager, since all his reading and writing had to be done through others on account of his semi-blindness, hence his ideas were mostly original with himself. He was a worker rather than a student. His strength lay in his indomitable will, his persistent fidelity to ideals, his ability to toil hard and long and to make practical use of whatever theoretical knowledge he possessed, and above all his deeply religious nature and charitable spirit which made him look upon his self-imposed task of uplifting the poor as a divine mission.

"'Inasmuch as ye have done it unto one of the least of these my brethren, ye have done it unto me,' was his life's motto, and he denied himself ordinary comforts, traveled third-class and stopped at cheap hotels that he might save money to carry out his mission. As he went up and down the country and visited his credit societies, the members called him 'good father Raiffeisen' and many Catholic priests and Protestant ministers acknowledged that his work for coöperation had more moral effect on the peasantry than all their sermons and ministrations."

Some measure of the service of this man, described in Mr. Herrick's book as "a kindly, cranky, half-blind, poor and chronically sick philanthropist," is contained

in the report of the United States Commission which made a study of rural credit abroad in 1912 and reported that January 1, 1910, there were 14,993 Raiffeisen banks in Germany with a membership of 1,447,766 and total outstanding loans of \$452,749,961. The Commission estimated the number doing business at the time of its investigation to be 17,000 with a membership of 1,700,000.

Schulze-Delitzsch

Passing for a moment some brief examination of the underlying features of the Raiffeisen system, let us as briefly examine the work of his eminent contemporary, Herman Schulze-Delitzsch. His first coöperative effort was the organization of a relief committee, during the difficult years 1846 and 1847, to collect funds with which a mill was rented for buying and grinding flour and a bakery for making and distributing bread to the destitute free or at a low price. This all happened at his native town, Delitzsch, which name he added to his own on his election to the National Assembly in 1848 in order to distinguish himself from another member of the Assembly of similar name. After the famine period he organized an insurance society for the poor and, among other coöperative organizations, a credit society at Eilenburg in 1850. His career in the Assembly was a stormy one. A progressive in politics, he opposed the effort on the part of the government to establish a military dynasty, voting against increased war taxes, his efforts resulting finally in an indictment for treason, along with many of his colleagues. He was acquitted after a trial at Berlin and, while he became

something of a popular hero, his acquittal inflamed the animosity of the government, which had looked upon him with suspicion and distrust ever since he began to organize associations for poor workmen and tradespeople.

After a period of practical exile in Wreschen, on the Russian frontier, he returned to Delitzsch to live in 1851.

In 1852 he reorganized an association which had been established at Delitzsch in 1850 entirely on the principle of self-help which had worked so well with the Eilenburg society. Quoting again from "Rural Credits":

"Gradually the two credit associations at Eilenburg and Delitzsch were followed by others in the Province of Posen and the kingdom of Saxony. By 1859 there were in existence 183 associations with 18,676 members, and a convention at which twenty-nine associations were represented by thirty-eight delegates was held at Weimar, and the General Federation organized. Schulze-Delitzsch was elected president, and was voted a salary to consist of two per cent of the net profits of all the associations, on the understanding that he should engage in no other business and should devote all his time and ability to the Federation. And from 1860 until the time of his death he gave his time exclusively to its work."

Schulze-Delitzsch became a national figure, opposing militarism, on the one hand, and socialism on the other. By 1861 there were 364 banks in the German Confederation with over 48,000 members. At the time of his death at Potsdam, in 1883, there were no less than 1910 Schulze-Delitzsch societies, with almost half a

million members. In 1911 the loans made by the Schulze-Delitzsch banks reached the huge total of \$1,106,165,207.

An interesting analysis of the two systems and of the differences involved in their methods of doing business is also quoted from Mr. Herrick's interesting and valuable volume:

"The systems evolved by these two founders of coöperative credit differ in so many respects that it is quite impossible for them to act in harmony, although they have the same object of creating credit for small amounts on the collectivity of borrowers. Schulze-Delitzsch believed in a large, mixed membership drawn from an unrestricted area; Raiffeisen, in a small membership of one class confined to an area not containing more than 2000 inhabitants. Schulze-Delitzsch believed in fair salaries and compensation; Raiffeisen, in gratuitous service. Schulze-Delitzsch believed that a society should declare as large dividends as possible; Raiffeisen, that it should make no distribution of profit. Schulze-Delitzsch believed that a society should do a general banking business on three months' paper, and he abandoned the idea that the use of the money should be watched; Raiffeisen favored only the simplest kind of transactions and long-time loans running for years if necessary and amortizable or repayable by installments, and he permitted loans to be made for productive purposes only. Schulze-Delitzsch believed in entrance fees and shares of such size as to keep out persons who did not possess a few assets or a small income. Raiffeisen was opposed to a capital formed by the shares of members and withdrawable at will on a short notice. He placed in its stead what he called the indivisible reserve, accumulated from slight additions to the interest rate and to prices, which remained the permanent property of the society, to be used as a guaranty and

also as a working fund and in case of dissolution to be turned over to some new credit society which might be organized in the locality. As to members, he welcomed anyone whose character was vouched for by neighbors, even if he did not have a cent to his name. Finally, the aim of the societies of Schulze-Delitzsch was purely materialistic, while the aim of Raiffeisen's associations was humanitarian. . . . The chief point in which the Raiffeisen society differed in form from the Schulze-Delitzsch type was the absence of shares, but after Schulze-Delitzsch had forced his views upon the legislature and the second German law on co-operation was passed in 1889, requiring a capital stock, they became practically alike in regard to organization and administration. As required by law, all Raiffeisen societies now have share capital. The size of the share is fixed at \$2.50: it may be bought on time so that the member need not put up a cent on joining, since entrance fees are not exacted."

These points of difference and other features of the two original systems of coöperative banking have a most interesting bearing on points of difference between the Massachusetts and the North Carolina credit union laws and the urban Massachusetts experience as compared with the rural development in North Carolina will be subsequently discussed.

Elsewhere in Europe

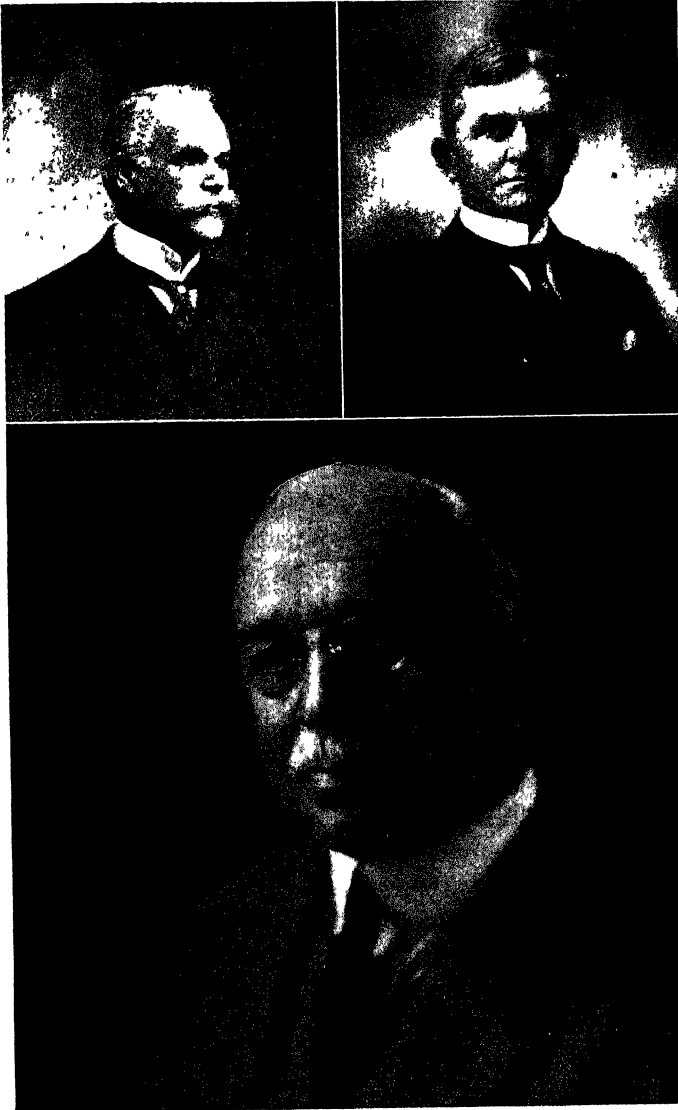
Quoting from Mr. Ham's "Credit Union Primer":

"Italy was the second country to adopt the credit union. Ex-Premier Luzzatti introduced a modified Schulze-Delitzsch system in Italy in 1866 by creating the peoples banks, while Dr. Leone Wollemborg is responsible for the creation, in 1883, of Italian rural banks on the Raiffeisen

plan. Austria followed in 1885. Ireland, under the inspiring leadership of Sir Horace Plunkett, has to-day over 200 coöperative banks. Coöperative credit was introduced into France in 1892. Russia has its credit unions [the Primer was published in 1914]; so has India. In 1909 Japan had 1886 credit unions with a membership of 170,000."

Canada

In the direct line we find Alphonse Desjardins, the father of the credit union in North America. M. Desjardins was born in Levis, in the Province of Quebec, in 1854. He graduated from Levis College in 1870 and entered the profession of journalism. He followed his profession for some years and, in about 1885, first became interested in the problem of usury. "It was the deplorable revelations brought about by lawsuits in Montreal and elsewhere," wrote M. Desjardins in 1914, "where poor borrowers had been obliged to pay to infamous usurers rates of interest amounting to several hundred per cent for most insignificant loans, that induced the writer to study carefully this problem with a view to finding out the best possible solution. The experience offered, above all by Germany, soon enlightened him. After fifteen long years of constant study, at last believing that he had acquired the necessary theoretical knowledge and being induced to do so by many of the leaders of the movement in Europe, he undertook the establishment of the new system." In his book entitled "The Coöperative Peoples Bank," published by the Russell Sage Foundation in 1914, M. Desjardins clearly indicates how profoundly he was influenced by Raiffeisen and Schulze-Delitzsch.



ALPHONSE DESJARDINS

JOHN SPRUNT HILL.

EDWARD A. FILENE

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"Two German economists were the first to obtain a clear conception of the economic needs of the working and agricultural classes and the best means of satisfying these needs. The names of Schulze and Raiffeisen are inseparably attached to the history of the beneficent institutions they founded. . . . It is the very essence of this system which has been introduced in Canada—more particularly in the Province of Quebec—under the name of Peoples Banks."

After so many years of study Desjardins organized the first peoples bank at his home city, Levis, December 6, 1900. The beginnings were again very meager.

"The first money received," writes M. Desjardins, "confirmed the modest hopes of the originator. The first installment paid was a dime and the total first collection amounted to only \$26. It must be admitted that so insignificant a result of all the hard work of propaganda was of a nature to discourage rather than to make one hopeful of great future achievements. Indeed, there was no lack of prophets to foretell a complete fiasco. The founder was freely criticized and was even the object of assertions of the most offensive character."

The Coöperative Peoples Bank at Levis, as has been stated, has now completed its twenty-first year of successful operation. Until his death, in 1921, it was managed by M. Desjardins. Since that time it has been under the management of his son Raoul. The modest dime has grown to assets well in excess of a million dollars.

Desjardins became the Raiffeisen of Quebec. From one end of the province to the other he journeyed, giving his life to the service of organizing coöperative peoples banks. In this work he had the coöperation of

the clergy, and so effective did his service become that in 1913, in recognition of the immense value of his work, the Pope conferred knighthood upon him. He organized his little banks among farmers, within groups of wage workers, in fishing hamlets and even among settlers opening up new parts of the wilderness to human habitation. One of the most successful of them is located at Thetford Mines and, as the name implies, is composed of a membership of miners.

Again it is possible to apply a yardstick to the life of a great man and see, written in figures, something of the measure of his greatness. The Statistical Year Book for the Province of Quebec indicates that the total annual business of the Desjardins banks in the province is now in excess of \$15,000,000, an increase of \$3,000,000 in a single year. A better impression of the man is, however, contained in his own words:

"However important it may be to prevent the farmer and the working man from falling into the clutches of the usurers, it is of even higher importance to educate and enlighten these same farmers and workingmen so that they may be in position to protect themselves; to teach them to manage their own business so that they may become thrifty and more valuable members of the community. In this high conception of social duty lies the real reward to those who have labored to help the movement for the Peoples Banks. Success for the young democracies of this continent depends upon the prosperity and worth of life to the millions of workingmen who compose them."

The Beginnings in the United States

It would seem that M. Desjardins had been a sufficiently profound influence for progress with coöpera-

tive banking because of his work in Quebec. We find him, however, associated prominently with the beginnings in the United States. His experience in Canada had much to do with early credit union development in this country.

Ste. Marie of Manchester, New Hampshire

"Our institution," writes Mr. F. J. Houlne, treasurer of La Caisse Populaire Ste. Marie of Manchester, New Hampshire, "was founded by the late Alphonse Desjardins, with the coöperation of the late Monsignor Pierre Hévey of Manchester." This credit union was authorized by Special Act of the New Hampshire Legislature in 1909 and is, therefore, the oldest credit union in the United States. It follows closely the plan of organization of the other Desjardins banks and establishes the direct connection between the Canadian system and the initial effort in credit union organization in this country.

Massachusetts

It remained for Massachusetts, however, to enact the first general law permitting the organization of credit unions, which name is applied for the first time in the Massachusetts law to coöperative peoples banks of the Raiffeisen, Schulze-Delitzsch and Desjardins types.

In his report to the Legislature for the year 1908 the then Bank Commissioner of Massachusetts, Pierre Jay, enters into a considerable discussion of "various associations as agencies both for the stimulation of thrift and for the loaning of money for those who need to borrow" and raises the question as to whether or not

"it would be wise to provide by law for some form of organization through which persons of moderate means might associate themselves for these purposes, after the manner of the credit unions and peoples banks of the European countries, India and Canada." Further in his report Mr. Jay indicates that he has the Canadian experience particularly in mind: "In Levis, in the Province of Quebec, where the first Canadian coöperative bank was established, the unincorporated loaners have all departed as the coöperative bank has taken away their field." He recommends that a law be enacted which will "authorize the organization of similar institutions in Massachusetts."

Subsequently a draft for such a law was prepared. Prior to this time this subject had already attracted the attention of Edward A. Filene of Boston who, in the course of an extended trip abroad in 1908, had come in contact with various types of coöperative peoples' banks not only on the continent but in India and Egypt as well. Having enlisted the coöperation of Mr. Jay, Mr. Filene became closely identified with the effort to secure the needed legislation, which interest he has since maintained, as is indicated in subsequent chapters. M. Desjardins was invited to Boston to assist, not only in the preparation of the initial draft of a credit union law, but in its presentation before the Committee of the Legislature to which it was referred. The result of this effort is indicated in the Report of the Bank Commissioner for the year 1909:

"In accordance with the recommendations contained in the Report for the year 1908, Chapter 419 of the Acts of 1909, providing for the incorporation of credit unions, which

are cooperative associations formed for the purpose of promoting thrift among the members, was enacted."

Thus the credit union came to the United States. Something of what has happened during the twelve trial years of credit union development which have since elapsed—of efforts made which have succeeded and of other efforts that have failed—with some logical conclusions which may be properly drawn from both success and failure and have to do with the greater development reasonably to be expected in the greater expanse of years ahead—is all reserved for the next chapter.

This chapter would be, however, incomplete without brief reference to the interesting fact that the North Carolina credit union law may be traced through a quite different channel of approach, although to the same original sources. The connection between the North Carolina law and the Raiffeisen system is much more direct. In 1912 President Taft addressed a letter to the state governors, inviting them to a conference at the White House for the purpose of discussing agricultural credit. For some months, at his direction, the Department of State, through its diplomatic officers in Europe, had been engaged in an investigation of the agricultural credit system in operation in certain European countries. His invitation was the result of the preliminary report based on this investigation, which contains the recommendation of Ambassador Myron T. Herrick, then, as now, Ambassador to France, a deep student of the problem, who has contributed much of constructive value to its investi-

gation. On October 1, 1912, the President wrote to the governors in part as follows:

"A very good law has been enacted by the state of Massachusetts, allowing the incorporation of credit unions which should furnish an example for other states. Their establishment is generally a matter of state legislation and encouragement, their organization and management wonderfully simple, as the European experience shows, and their success is practically inevitable when the environment is congenial and where proper laws are passed for their conduct."

In 1913 the American Commission to Investigate Rural Credit Agencies was appointed and made an investigation of various types of credit union development in Europe. Speaking of the work of the Commission at a meeting before the North Carolina Conference for Social Service, held at Raleigh, January 23, 1917, Mr. John Sprunt Hill, a banker of Durham, North Carolina, and one of the representatives of his state on the Commission, spoke in part, as follows:

"What was the main purpose of the great journey four years ago of the American Commission, composed of representatives from thirty-six states of the American union and six provinces of Canada, in visiting European countries at great expense to themselves and the government? It was to 'find Raiffeisen.' I shall never forget the day that it fell to my lot to find Raiffeisen in the village of Vignova, at a meeting of the members of an Italian credit union composed of about three hundred farmers and their wives. A wealthy bank president, who was an ex-United States bank examiner, said to me, as we were beginning to recover from our astonishment and as we were commencing to realize

fly and other insect pests, but it did not even so much as attempt to show him how to protect himself against the costly toll levied upon the fruits of his toil by such human pests as the usurer, commercial pirates posing as legitimate elevator and commission men and all the hordes of economic parasites."

Upon his return to the United States Mr. Hill became very definitely interested in the possibility of bringing Raiffeisen to North Carolina, and to his influence and coöperation may be directly attributed the enactment of the Coöperative Credit Union Law by the North Carolina Legislature in 1915.

Something of the origin of credit union laws in other states and of the present credit union development in the United States is reserved for the next chapter. Enough has been said, possibly, to indicate my conception of credit union genealogy.

Credit Union Laws Vary

It should be borne in mind that no two credit union laws are exactly alike. It is because of this lack of uniformity, partly, that such eminent authorities in matters of coöperative banking in the United States as Warren S. Stone, President of the Brotherhood of Locomotive Engineers National Coöperative Bank of Cleveland, Ohio, and Dr. Walter F. McCaleb, for many years identified with credit union development and at present the very successful General Manager of the Brotherhood Bank, have felt that more rapid and uniform progress could be made in the United States through Federal legislation.

In certain particulars the credit unions differ from

the Raiffeisen and Schulze-Delitzsch systems. No child is the exact reproduction of his parent. Normally a credit union in a Massachusetts industrial unit will, in many ways, work out its problems differently from the rural credit union of North Carolina small farmers. We have a vast area in the United States with very substantial differences among people in various sections, which are far remote from each other. It is not surprising to note, therefore, that the credit unions organized by Desjardins in Manchester, New Hampshire, and Lynn, Massachusetts, for example, follow closely the plan he found to succeed in the Province of Quebec. They were built around the French-Canadian church parishes and organized, as were his Canadian credit unions, in coöperation with local priests. The same plan, in all its details, might not work well within a factory, a Jewish community, a group of colored farmers or a social settlement house frequented by Italians.

The problem in the United States is as much more complex as is the character of the population. The type of credit union law best fitted to an average community of American citizens has not yet evolved. It is in process of evolution from the experiments which are now being conducted and which have been carried far enough to indicate the broad lines on which the national development will eventually materialize.

However, the fundamental principles of coöperative saving and coöperative credit, both based on the underlying single fundamental principle of self-help, are contained in all the systems referred to and are sufficient to establish their relationship.

In favor of this contention is the opinion of the Russell Sage Foundation, as best illustrated in "A Credit Union Primer" before referred to. Mr. Arthur H. Ham, to whom frequent reference must be made in any book having to do with the short term credit problem, was, at the time the "Primer" was published, the Director of the Division of Remedial Loans of the Foundation. The co-author, Leonard G. Robinson, was then General Manager of the Jewish Agricultural and Industrial Aid Society and had been for ten years in the business of making loans to farmers in nearly every state in the Union. Mr. Ham's study and experience in the field had covered a period of six years and both were preëminently equipped to prepare an authoritative discussion of the subject. In the "Primer" the various systems of coöperative peoples banks in Europe, the Desjardins system in Canada and the credit unions of the United States are all classified as "credit unions." In the opening paragraph the interesting fact is pointed out that, at the time of publication, it was estimated that there were then in all parts of the world approximately 65,000 credit unions with an approximate membership of 15,000,000 doing, in round numbers, an annual business of \$7,000,000,000.

While the systems are all classified under a single descriptive title, something of the differences in detail are indicated. It is pointed out, for example, as has already been indicated, that the Raiffeisen associations place no importance on share capital and obtain their funds by deposits and loans from outside sources through the unlimited liability of members. In credit unions the practice varies. Some urban credit unions

prefer to operate without deposits and other with a minimum share basis, placing all emphasis on deposits. All resulting accumulations, so far as the demand exists, are used for loans to members, both shares and deposits, and the difference is largely contained in the point of view of the member, who is most apt to place in shares such amount as he is not apt to need to withdraw before dividends are declared and on deposit what might be interpreted to be his fluid, working capital. It will be recalled that the Raiffeisen rural credit unions placed no emphasis on dividends to members. This is the rule with the North Carolina rural credit unions. The Schulze-Delitzsch urban credit unions did emphasize dividends, which is pretty much the practice among the urban credit unions in New York and Massachusetts.

It is true that urban credit unions, while they have the power to borrow, do not do so to any considerable extent, simply because they do not need to. On the other hand, the rural credit unions, not having available the large accumulations made possible by the numerically stronger urban groups, do borrow, the most recent statistics from North Carolina indicating that the credit unions borrow an approximate total equal to 25 per cent of their resources.

While the purpose of the loan has not been lost sight of in the urban credit unions, they follow the Schulze-Delitzsch practice in that the variety of loan is considerable and the amount of the individual loan may be quite material. On the other hand, the rural credit unions are primarily useful as a means of promoting coöperative buying, with great resulting economies,

which, it will be recalled, was very early an essential element of service rendered by the Raiffeisen banks.

The Schulze-Delitzsch organizations aimed chiefly at the promotion of thrift, and a large proportion of their funds consist of withdrawable shares, which is the prevailing New York and Massachusetts practice. The more recent credit union laws permit deposits by non-members, one of the fundamental principles of the Raiffeisen system. The Raiffeisen banks were also more or less assisted by the government, which is the fact in North Carolina.

Credit unions in the United States follow closely the Canadian or Desjardins type, the shares having a moderate par value, liability being limited, and, in the older credit union states, the associations dealing solely with members.

Authoritative Credit Union Criticism

Before concluding this chapter it should be pointed out that the general credit union plan, as thus far developed in the United States, has not escaped criticism. As has already been indicated, Ambassador Herrick is a deep student of this subject. I am greatly indebted to his book for much of the historical data contained in this chapter. Doubtless in the light of more recent credit union development, many of his criticisms (made in 1915 and thereabouts) would not now be offered. They should, however, be called to the reader's attention. They do not indicate, in the main, a difference of opinion as to the service a credit union should render, but rather differences as to whether the credit union is so organized as to be capable of effec-

tively rendering the sort of service we all hope for from it.

In an address before the Missouri Bankers' Association, delivered May 25, 1915, Hon. Myron T. Herrick said: "The trouble with the so-called credit unions is the mistaken notion that funds should be used only for loans to members." Checking Mr. Herrick at this point, typical credit union laws provide for loans to members, deposits in banks and investments legal for savings banks. Loans to members may mean to small business men, to help a member buy a store or build a house, to promote coöperative buying, to pay for education, to relieve him from distress of debt and an almost unlimited variety of purposes which may be generally classified as "promising to be of benefit to the borrower." I have in mind one credit union which has over a quarter of million dollars invested in bonds, another which does a considerable business in bankers' acceptances, and a third which has enabled its members to buy large quantities of the stock of the public service corporation by which the members are employed. "These credit unions," quoting Mr. Herrick again, "cannot receive deposits from outsiders or do ordinary banking." The North Carolina law permits outsiders to deposit, as do the recently enacted Virginia and Kentucky laws. As a matter of fact, as membership is determined by the subscription to a single share it has not been found any considerable handicap to have an individual, otherwise eligible to membership (let us say, for example, the directing head of some large business in which a credit union is established) take out a single share and then deposit

as large an amount as he may see fit. I have in mind a single deposit in a credit union recently of \$3000. However, among urban credit unions, the problem, after a few years of organization, is more apt to concern the investment of surplus than securing additional resources. "Even their name is a misnomer because they are not permitted to use their funds for the common good of all the members. All they can do is make individual loans." I have in mind a credit union which recently bought 5000 tons of coal, at a substantial discount, by pooling the joint credit of all the members who were coal providers in their respective homes. Practically all of the resources of North Carolina rural credit unions are used for such purposes as the purchase of fertilizers in car-load lots.

Mr. Herrick's Further Criticisms

Mr. Herrick elaborated his criticisms somewhat the following October in an address before the Illinois Bankers' Association. "The credit unions are a striking instance of good intentions gone wrong through immature thought and hasty action. The credit unions are coöperative thrift societies, yet the lawmakers were possessed of the idea that the way to create and encourage coöperation and thrift is to grant tax exemptions and limit dividends to 6 per cent." The tax exemption part of the Massachusetts law is the same exemption which applies to savings bank deposits. Some laws do not grant tax exemptions. There is a resulting benefit which comes from the accumulation of new capital which is so great that waiving the small tax on small savings is more than justified. This is

not essential, however, although justified. I know of no credit union law limiting dividends to 6 per cent, except the North Carolina rural credit union law which follows the Raiffeisen plan. As a matter of fact, the North Carolina credit unions place all emphasis on dividends of service and many of them voluntarily prefer to set aside all earnings, except interest on deposits, to reserve income. Inasmuch as credit unions are primarily valuable as an effective means of preventing usury and all dividends must be paid out of earnings, there would be much to be said for a limitation on dividends. "The chief cause of the defects in the credit union laws is that the legislators have mistaken coöperation as a benevolent or altruistic means of helping only weak and poor people." It is difficult to find much benevolence in a law which simply provides the machinery whereby people of limited means may accumulate their savings and make effective use of the resulting accumulation. This statement is not borne out by the later facts of credit union experience. It is not a true picture, for example, of the Skandia Credit Union of Worcester, with assets of three quarters of a million dollars, accumulated in five years and utilized in a vast variety of ways for the benefit of the membership. "The credit union laws, by limiting dividends and imposing other restrictions absolutely, prevent the coöperative practices that they were intended to encourage." This statement is substantially disproved in various parts of this book. It is not justified by the facts of credit union experience and probably would not be made in the light of the development since Mr. Herrick's speech was made. "What is now

needed is a law or association managed for profit." Our greatest difficulty in both Massachusetts and New York is to prevail upon the credit unions not to lose sight of service in the process of paying large dividends. I know of no urban credit unions which do not show substantial profits. "Massachusetts, in 1915, by converting her credit unions into mortgage associations and authorizing them to grant forty year loans and issue bonds, has made the law so radically wrong that it will require infallible judgment on the part of the Bank Commissioner to prevent it from being misapplied and doing harm" This section of the Massachusetts law has never been made use of in a single case and is a dead letter and will doubtless be removed as surplusage.

Criticism in "Rural Credits"

Again in his book entitled "Rural Credits," to which reference has already been made, Mr. Herrick speaks of the credit unions. "All credit union laws require the members to be natural persons." So far as this is a fact, it is a good criticism—the most recently enacted credit union laws provide that other than natural persons may be members. "All forbid the acceptance of deposits from outsiders, thus closing the greatest source of funds for operation." This is not the fact in North Carolina. The rural credit unions need outside financial help when they can get it and the law permits it. It is a fact that the Massachusetts' law does not permit it but, as has already been indicated, the urban credit unions, for the most part, have more money than they need for loans to members. While

the urban credit unions can borrow very few of them do, except in rare emergencies, because of the same reason "All require share capital and prohibit the societies from using their funds for other purposes than making loans." The initial capital required to start a Massachusetts credit union is \$1.40 if the seven members in the original group have decided to make shares payable on a 10 cent installment basis and have established a 10 cent entrance fee. The use of the money has already been commented on. "Its chief object should be to accumulate funds for the use of the members collectively as well as individually for the common good." See the North Carolina chapter and the story of the Lowe's Grove Credit Union. It is most interesting to compare this last statement with the definition of the Lowe's Grove Credit Union contained in an earlier chapter: "The Union is based on the principle of self-help, and the financial strength of the community is mobilized for the use of those who live in it."

In fairness to Mr. Herrick, attention should be called to the fact that his speeches were made the same year the North Carolina law, which answers most of his objections, was enacted. While the Massachusetts law contemplated some development of rural credit unions, none have ever been attempted in the state, largely because the state is primarily industrial and the credit union development has followed quite naturally the Schulze-Delitzsch experience rather than the Raiffeisen system. The latter system can more readily be recognized in various provisions of the North Carolina law, which was drafted with a Raiffeisen

development in view. The Kentucky law, so recently enacted that no development could be as yet expected, provides both for non-members and for members other than natural persons. It also provides for no limitation on dividends and, as a matter of fact, was drafted with Mr. Herrick's most valuable suggestions in mind. It will be most interesting to see how this law works out. It illustrates how completely this is a developing subject in the United States and how the finally perfected law—if there is such a thing as final perfection in such a subject—will finally result as the accumulation of actual experience.

It cannot be too often repeated that credit union experience in the United States is in its infancy. It will be recalled that the rapid development of the Schulze-Delitzsch system was due to the action of the first meeting of the General Federation at Weimar in 1859, at which twenty-nine of his associations were represented by thirty-eight delegates and that the meeting voted to employ Schulze-Delitzsch to direct the further development. The first Massachusetts credit union was organized less than twelve years ago, and I recently attended a meeting of the Credit Union League of Massachusetts, attended by over a hundred delegates representing fifty-two credit unions in the state, with a membership of approximately 22,000. At the time of the Weimar meeting the total membership in the Schulze-Delitzsch banks was 18,676, and less than a quarter of them were represented at the meeting. Progress in the United States has indeed been slow—but it has been appreciable.

The criticisms of Mr. Herrick have been most effec-

tively answered in an interesting pamphlet by Mr. Ham, entitled "The Object of the Credit Union—A Reply to Myron T. Herrick." The first statement contained in the pamphlet still holds true: "The credit union movement is too young yet to have become generally understood and accepted, but one cannot fail to remember that it required fifty years for the now well-known and widely appreciated building and loan association to become a popular institution in this country and that, in its early days, it, too, had its critics as well as its defenders." In this connection it may be well to point out that twelve years after its organization the credit union at Levis had assets of but \$188,306, and that, in its seventh year the Credit Union of Central Falls, located in Rhode Island, had assets of \$683,974. Desjardins spent fifteen years studying the problem, while the first official mention of the subject in Massachusetts was contained in the Bank Commissioner's Report for 1908 and the first general law was enacted the next year. The first Raiffeisen experiment was in 1849, and his plan was not perfected until 1864, fifteen years later, and in something like final shape in 1869. No one familiar with the subject would question the fact that credit union development has been disappointingly and almost unaccountably slow, particularly if one is conversant with the serious problems with which the credit union can concern itself and anxious to see these problems met. The reasons for this and some suggestions as to the method whereby public attention may be more rapidly focused on the potential value of the credit union will be subsequently discussed.

Mr. Ham takes up the criticisms which have been made of the system and answers them most effectively, pointing out details of difference which have been already discussed.

Time and experience answer many confusing problems, and most of the reflections on possible credit union value have already been most effectively answered by the few years of active and quite limited credit union experience. Rome was not made in a day nor are age-long problems answered by the inspiration of the moment. All worth-while things evolve from intelligent effort, from self-sacrifice, from the capacity of the human which distinguishes him from the lower animals—that sense which he has, if he will but exercise it, to take the imperfect product that he receives from the generations that have preceded him and bring it closer to perfection.

So viewed, the credit union, offspring of a distinguished system of coöperative banking abroad, should grow up to render a service worthy of its parentage.

CHAPTER III

CREDIT UNION DEVELOPMENT IN THE UNITED STATES

This chapter is an attempt to indicate the present extent of credit union development in the United States. I say "attempt" advisedly. From my own personal experience with the subject I realize, for example, that there are probably more credit unions operating in the United States without conforming with some specific credit union law than there are working in accordance with the provisions of various credit union enactments. There is, for example, an excellent credit union in Reading, Pennsylvania, despite the fact there is no law governing its operations. Similarly, I have had correspondence with a group of men and women in Little Rock, Arkansas, who had it in mind to organize a credit union in accordance with the provisions of a general coöperative act in that state. In Massachusetts one of the recently organized credit unions had been doing business for nineteen years and had assets of a quarter of a million dollars before applying for a credit union charter. Were the data available relative to organizations of this sort, it would add most materially to our present available knowledge on the subject.

Further, the data in this chapter are of the present date (August, 1922). It will be "out of date"

to-morrow. Credit union statistics change more rapidly than women's styles. Credit union assets in New York, for example, increased last year over one hundred per cent. Further, most of the available statistics must be taken from reports which, of themselves, are no longer up to date, even at the day of issuance. I have just at hand the report of one Bank Commissioner covering operations which closed October 31 last, and the number of credit unions in that particular state is greater than it was at that date, the number of members much larger and the total assets probably greater by at least twenty-five per cent than at the close of the period covered by the report. I recall one government report on the subject which came out nearly a year after the figures were gathered and the figures, when collected, were nearly a year old.

Nor am I certain but what Father Raiffeisen would claim kinship between his system and the building and loan associations which are developing with such rapidity in the United States. There are over four and a half million members of building and loan associations, with assets which now total in billions. There are more points of similarity than difference between the credit union and the building and loan association. As is explained in detail in subsequent chapters, there are enough fundamental points of difference to warrant the two systems, but the plan of the building and loan association is so distinctly coöperative that it may well be that this chapter should contain some reference to their statistical development.

For purposes of comparison I also include brief reference to the Canadian development.

As the first general credit union law was enacted in Massachusetts it may be well to first briefly consider the Massachusetts experience.

. Massachusetts

As has been indicated the Massachusetts Credit Union Law was enacted in 1909. It was amended and reenacted in 1915 and is Chapter 171 of the General Laws.

In 1910 one credit union reported to the Bank Commissioner with a membership of 105 and total assets of \$2448.50. When studying the development of the Massachusetts credit unions the fact must not be lost sight of that the law has operated for twelve years, including the abnormal period beginning with the outbreak of the World War, the period of our participation in the war, the abnormally "flush" times immediately following the war, and the financial and industrial depression which came when the fever of the post-war period began to abate. The period of abnormality has a bearing on the consideration of the entire problem of credit union progress in the United States. During the war, for example, all emphasis was placed most properly on the investment by individuals in war securities. When times are abnormally good, or perhaps a better description would be to say, artificially good, the normal inclination to spend more than offsets the greater capacity to save.

Despite these difficulties, the Massachusetts credit unions have gradually increased in number and resources. In 1914 there were 47 credit unions with a total membership of 6149 and resources of \$279,358.

There were then loans outstanding of \$224,360. By 1917 total assets had passed the million mark and the membership had increased to nearly 15,000. The 1918 Report indicates 59 credit unions with assets slightly less than \$2,000,000 and loans aggregating approximately \$1,500,000.

The most recent Report (for the year ending October 31, 1921) shows 82 credit unions with total resources of \$4,047,172.76 and a membership of 32,226. During the year dividends to shareholders and interest paid on savings accounts amounted to \$164,672, and \$3,003,765 represents the total of then outstanding loans to 12,180 members. The type of this development, the nature of the loans, the sort of service being rendered, the propaganda work in Massachusetts and other details of this development are all reserved for the chapter which has to do with the Massachusetts credit union as typical of urban credit union development in the United States.

In his report for the year 1920 the Bank Commissioner said of the Massachusetts credit unions:

"The law authorizing the organization of credit unions has now been in effective operation for a sufficient period so that the credit union has advanced far beyond the experimental stage in this Commonwealth. The increase in both membership and assets has been particularly rapid since the close of the war and, with the present state-wide realization of the necessity for the stimulation of thrift, there should be a rapid and continuing development of the service rendered by the credit union."

It will be recalled that in his 1921 report, after referring to the severe strain put on the credit unions

The following table indicates the Massachusetts credit union development:

<i>Date</i>	<i>Number of Credit Unions</i>	<i>Mem- bers</i>	<i>Shares</i>	<i>Deposits</i>	<i>Loans</i>	<i>Number of Borrowers</i>	<i>Total Resources</i>
1910	1	105	\$1 670 00	\$605 66	\$1 743 13	64	\$2,448 50
1911	17	1,623	19,623 25	5,154 42	19,035 53	348	26,983 11
1912	26	2,862	64,910 43	21,948 49	68,332 54	752	94,080 41
1913	34	4,529	120,284 48	50,308 36	146,597 41	1560	184,608 66
1914	50	6,149	177,657 31	78,891 66	224,360 34	2109	279,358 23
1915	47	7,846	252,218 00	143,592 41	362,430 36	2887	431,599 48
1916	53	11,418	436,164 36	328,102 61	652,385 78	3623	816,443 08
1917	56	14,821	593,020 21	561,962 47	993,344 98	4585	1,247,585 00
1918	59	17,636	874,542 19	978,494 86	1,555,087 87	5897	1,977,778 00
1919	60	22,987	1,372,322 09	1,239,514 64	2,295,831 85	7872	2,791,165 00
1920	65	29,494	1,938,843 97	1,784,580 75	3,323,409 93	9621	3,995,459 00
1921	82	32,226	2,134,487 00	1,912,685 76	3,003,765 00	12180	4,047,172 76

The following is a list of the Massachusetts credit unions as of this date showing individual assets, members, shares, deposits and outstanding loans.

MASSACHUSETTS STATISTICAL TABLE

Name	Total Assets	Members	Shares	Deposits	Outstanding Loans
Asco	\$409	32	296	\$738	\$223
Augustof	2,222	34	1,861	....	1,463
Beverly	31,611	603	28,138	....	31,254
Beverly Investment	13,600	78	10,551	....	10,295
Boston & Maine Employees	39,821	511	21,444	1,171	23,497
Brockton	31,769	611	23,899	14,928	27,623
Clgar Factory Employees	91,562	725	25,980	3,711	27,217
City of Boston Employees	35,877	958	18,704	13,748	28,551
Cosmopolitan	545	19	350	....	384
Crescent	53,286	654	31,600	17,447	51,082
D.M.C.	29,676	644	21,065	7,092	18,065
Metropolitan	1,218	55	756	200	614
East Boston	9,512	142	9,003	....	7,989
Elmco	6,778	125	4,076	2,237	5,166
Gilco	21,820	225	3,509	17,567	4,299
Greater Boston	missing	..	..	..	..
Hampden	1,590	..	1,354	....	..
Holyoke	219,490	564	68,945	142,959	1,466
Industrial	49,764	901	37,676	1,635	205,580
Jeanne d'Arc	301,114	1,103	21,120	254,777	37,149
Jewish Farmers	1,073	46	414	....	265,168
Labor Circle	10,405	196	1,281	7,870	848
La Caisse Populaire de Lawrence	26,453	218	23,022	11,411	9,113
La Caisse Populaire de Worcester	15,928	248	8,131	11,845	23,908
Lawrence	19,877	258	18,377	....	14,299
Lord Beaconsfield	22,890	187	19,577	....	13,897
Lowney Cooperative	6,966	146	1,510	4,902	21,852
Mansfield	8,956	152	4,422	3,995	2,377
Massachusetts	8,911	105	4,825	....	5,360
Mass. Carpenters	22,198	366	11,503	8,231	667
Navy Employees	33,182	583	27,154	1,904	8,745
Neponset	18,317	353	8,048	8,328	21,162
New England	43,765	540	37,218	160	13,008
Notre Dame de Lourdes	269,344	950	52,901	201,845	42,015
People's	27,128	250	43,687	500	256,473
Progressive	48,829	485	43,687	1,579	24,966
Progressive Workmen's	117,543	1,257	87,115	12,430	102,089
Radfac	1,084	34	467	551	973

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Revere	89,120	574	76,633	848	82,013
Roxbury	7,825	151	6,580		6,449
Sacred Heart	73,260	294	14,029	51,216	68,063
Salem Central Labor	8,948	181	7,723		8,154
Salem	1,366	58	1,129		1,610
Santa Maria	4,303	95	631	8,409	1,576
Shepard Stores	34,641	250	28,686		29,850
Shawmut	661,602	1,820	449,738	159,153	374,300
Standia	216,024	652	47,878	142,969	197,569
St. Anne Baptiste	69,426	420	30,784	28,101	62,514
St. Jean Baptiste	8,504	61	6,034	1,244	7,638
St. Joseph's	13,832	190	11,088	1,994	8,286
St. Mary's	314,058	5,074	154,508	138,126	211,939
Telephone Workers	32,699	452	17,779	18,720	32,201
Traders	74,126	1,075	84,577	38,958	63,112
Waltham Watch	196,182	1,215	72,235	769	181,128
West End	19,637	111	10,677	7,683	9,043
Whitson	4,408	59	3,316	219	2,565
Winthrop	29,168	397	20,985	5,251	25,598
Worcester	159,729	1,105	131,895	19,551	156,814
Workers	398,427	1,231	149,382	216,677	370,275
Zion	140	5	100		44
United Tailors	3,411	69	2,931		2,950
Blake & Knowles	3,796	98	1,060	2,630	733
Blue Hill Neighborhood	14,562	347	12,638		11,321
Winnissmet	4,883	117	3,959		3,884
Mass Public School Janitors	218	25	212		60
Union Workers	572	41	344	200	317
Prospect	3,388	84	2,377	824	2,881
Hygrade	3,553	162	2,704	761	1,561
Walworth	7,308	225	3,118	3,446	5,894
Chandler & Farquhar	1,813	44	1,690	91	123
Mount Bowdoin	2,191	75	2,076		730
Fitchburg	3,182	49	2,789	100	3,015
State Employees	2,265	105	1,945	238	2,000
Etsco	273	20	267		30
Beacon Hill	27,063	260	25,446		24,813
South End	4,605	119	574		48
Hamilton	4,309	262	3,922	293	787
Filene Cooperative Assoc	272,482	1,500 *	1,500 *	270,982 *	See assets
Jewish Community	1,886	72	1,775	1,775	1,822
Polish National	6,081	133	1,231	4,636	3,906
Social Service	1,486	33	1,476		637

* This credit union took over the Filene Cooperative Association Bank and began doing business just as the credit union year closed and is not included in the Bank Commissioner's summary for the year

by the period of industrial and financial depression in Massachusetts, he said:

"In spite of these facts, these institutions have emerged from the situation materially increased in strength and resources and more substantially established in the Commonwealth than at any time since the creation of the credit union system, in 1909."

New York

Again, in New York we find traces of the great service to coöperative banking rendered by Alphonse Desjardins.

"It was the impetus resulting from a visit from Alphonse Desjardins in 1909 or 1910," writes Miss Caro D. Coombs, Secretary of the Division of Remedial Loans of the Russell Sage Foundation, "that eventually resulted in the credit union bill. At about that time Arthur H. Ham, then associated with the Foundation, got in touch with Leonard G. Robinson, who had organized some credit unions among Jewish farmers in the state, and with Pierre Jay, and the matter of credit union legislation was discussed at various times. David J. Gallert coöperated in the actual drafting of the bill and the Massachusetts law and La Caisse Populaire were both studied as models for the New York bill, with various changes in detail. The Bank Commissioner, Hon. George I. Skinner, was consulted and finally gave his approval.

"It was discovered before the bill had been enacted that the then State Senator, Franklin Roosevelt, had introduced a similar bill, but for rural credit unions only. Mr. Roosevelt readily agreed to withdraw his bill in favor of the draft proposed by the Foundation. The law was enacted finally during the 1913 session of the Legislature."

From the beginning the Russell Sage Foundation has been interested in the effective use of the law for the enactment of which the Foundation was responsible. Not only has the Foundation assisted in the organization of New York credit unions, drafting and supplying forms at nominal cost, promoting the organization of associations of credit unions in the state, but it has done much effective work through the publication of credit union books and the general distribution of credit union information. This work was carried on under the able direction of Mr. Ham, so long as he was associated with the Foundation, and has more recently been under the most efficient administration of Miss Coombs, at present acting head of the Division of Remedial Loans. At some time or other practically every group organizing a credit union in New York comes in contact with Miss Coombs' office. In 1917 Mr. Ham organized the New York State Association of Credit Unions, which was reorganized by Miss Coombs in 1921 and is now in process of a further reorganization along the lines of the Massachusetts Credit Union League.

Particular interest attaches to the New York experience, however, for this reason. There has been no effort in New York to organize credit unions under some specific direction. No one has gone out in the state seeking to promote credit union organization. The Foundation has helped all those who came to it and has done much of a general publicity nature, but there has been no Raiffeisen or Desjardins giving up all his time to active propaganda and doing the work necessarily incidental to interesting groups, the mem-

bers of which never heard of the law and never would hear of it unless the possibility of its value were brought home to them directly. There has been such work in Massachusetts as will be described later in the Massachusetts chapter, and this whole phase of the subject—the business of bringing the law home to the people and helping them to make effective use of a law which is sufficiently technical so that there must be some assistance of this sort rendered—is the most important phase of all.

I have heard it said that there is no need of credit union organization in the United States and that the proof of that fact is that there are some credit union laws and no resulting credit unions, and some students of the subject have assumed, necessarily without analysis, that the Raiffeisen and Schulze-Delitzsch systems and the Desjardins development came quickly and without propaganda or direction after the first credit unions had been established. Nothing could be further from the fact. Raiffeisen gave the best part of his life to doing propaganda and organization work. Schulze-Delitzsch, as has already been indicated, after the Convention at Weimar, in 1859, until the time of his death, in 1883, did nothing but propaganda and organization work, for which he was paid by the Federation. In 1882 Emperor William I sent Raiffeisen a letter of appreciation for his great work in helping farmers, accompanied by a donation of \$7200. A similar mark of respect was shown by William II, who sent him \$4800.

In 1864 the admirers of Schulze-Delitzsch presented him with \$37,500, which was raised by public sub-

scription in recognition of the very great value of his services.

Desjardins, from the time he organized his first credit union, in 1900, until the time of his death, in 1921, devoted practically all of his time to the organization of credit unions in the Province of Quebec. He had also the hearty coöperation of the parish priests and the great asset to his work contained in the homogeneity of the average French-Catholic parish.

All of this has a most important bearing on the subject, because it is so obviously a fact that the enactment of a law authorizing credit unions is but a step, and that, without some effective means of making the law useful to the people, no credit unions will result. This becomes the more self-evident when you try to recall what you know individually of the laws enacted at the most recent session of your own state legislature. The importance of this phase of the subject will be later discussed.

The interesting thing in New York is that, despite the fact that the Massachusetts law has been on the statute books four years longer than the New York law and there has been propaganda and organization work in Massachusetts and, except as above indicated, none in New York, the New York credit unions have passed their Massachusetts brethren in both assets and total membership.

The beginnings were again modest. In 1915, 15 credit unions were organized, bringing the total to 17, with total assets of \$68,777.76. Two years later there were 39 credit unions, with total resources of \$465,367, which number had increased in 1919 to 49, with total

The following analysis indicates the present condition of the credit union movement in New York State:

STATUS OF NEW YORK CREDIT UNIONS

<i>Name</i>	<i>Assets</i>	<i>Loans</i>	<i>Bor- rowers</i>	<i>Members</i>	<i>Shares Fully paid</i>	<i>Deposits</i>	<i>Bor- rowed Mon.</i>	<i>Guar- anty Fund</i>
American Commercial ..	\$12,933	\$12,933	103	88	5,550	\$7,200		\$1,116
American Express ..	134,730	32,139	114	120	7,913	122,848	\$2,000	758
American Mutual ..	37,143	35,644	246	157	32,308	13		129
Amsterdam ..	6,851	6,416	56	39	6,022			5,353
Austrian Hungarian ..	91,103	82,106	490	116	80,065			1,694
Bath Beach ..	21,612	21,451	148	69	20,183			1,040
B'nai Scholem ..	22,752	20,822	143	48	19,533			1,879
Borough of Brooklyn ..	34,304	31,679	148	143	30,000			8,191
Bronx ..	140,416	123,496	515	67	120,025			408
Centerville Station Coop ..	4,695	4,300	71	216	4,030	100		609
Central ..	21,410	18,441	176	12	19,430	200		537
Citizens ..	11,660	11,223	120	5	10,231	84		6,978
Commercial ..	139,896	126,640	569	711	87,375	33,829	3,000	667
Coney Island Mutual Afd. ..	31,070	28,074	131	103	25,095			
Consumers ..	828	675	14	55	660	119		
Cooperative ..	8,324	7,164	74	351	4,719	2,518	500	324
County C U Inc ..	23,728	21,976	63	95	16,182		2,300	375
C. U of Nowo Radonsker Soc ..	6,227	5,313	31	79	5,898			537
Eastern Star ..	32,463	32,463	266	32	26,615			1,235
East New York Commercial ..	29,520	27,375	163	168	25,900			835
East Side ..	43,412	40,294	374	1	36,750	2,350		1,009
Empire State ..	8,915	7,340	74	39	6,925			222
Employees James McCreery & Co ..	12,565	12,565	72	509	3,710			986
Equitable ..	57,344	13,869	238	806	30,170	21,660		1,334
Federal Employees ..	70,374	56,700	428	419	42,519		10,200	6,605
First Hungarian ..	75,027	69,810	520		68,055	6,059	2,000	3,304
Food Dealers ..	397,764	377,642	901	650	365,150			14,235
Fratern ..	52,330	49,580	384		45,790		1,700	2,497
General Emergency ..	71,263	69,584	433		64,195		1,000	2,480
Gibraltar ..	49,133	46,629	119	198	39,985	1,188		2,159
Glaser Mercantile ..	26,584	24,114	144	195	24,362			1,123
Glenmore ..	12,507	11,807	110	169	11,795			329
Globe ..	132,184	118,356	1,223	522	107,080	9,047		2,812
Grand ..	6,216	5,891	59	14	5,460			208
Great Eastern ..	70,539	62,722	148	151	68,675			326
Great Northern ..	4,834	2,687	26	45	4,290			2,939
Grocers ..	71,732	70,805	318	408	59,455			937
Guarantee ..	33,285	30,345	209	86	27,175		2,300	
Hamilton ..	107,062	106,221	251	175	75,100		25,000	

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Harlem	13,436	106	48	12,222	12,100	380
Hebrew National	27,850	122	4	27,185	25,000	1,299
H & K	18,576	113	125	18,546	28,546	..	..	634
Homer	33,285	112	89	30,913	28,850	..	..	2,107
Insurance	7,544	62	180	7,422	7,000	..	..	136
Inwood	5,628	62	64	5,248	5,365	..	..	50
Japanese	19,073	11	56	5,058	16,780	..	..	898
Jewish Farmers Coöps	1,569	23	11	1,410	750	..	450	2,273
Kings County	42,252	250	150	41,865	37,400	..	..	1,799
Liberal	39,332	162	81	39,200	33,200	..	500	12
Litho	709	9	60	653	625	..	..	426
Long Island	15,781	28	57	14,952	4,850	9,843	..	500
Manhattan	30,542	..	..	22,835	29,125	..	..	15,221
Mercantile	795	..	21	378,192	231,160	83,360	..	500
Merchants	422,436	257	119	6,006	6,160	310	..	473
Metals	10,043	19	33	29,395	28,180	..	..	2,348
Metropolitan	32,513	194	53	338,963	305,560	..	..	17,362
Municipal	347,720	2,987	1,725	49,823	51,380	..	..	855
Mutual	54,637	174	333	24,159	10,350	254	..	2,744
Mutual Investment	34,578	427	106	1,174	1,600	1,325	..	1,460
N Y Clothing Cutters	5,197	18	..	47,802	46,150	..	..	1,296
N Y County	49,660	292	..	28,759	14,423	27,053	..	261
N Y Life Employees	45,041	201	357	562	12,132	15,787	..	8,341
Niagara Employees	12,761	562	211	177,903	127,380	17,550	..	578
Progressive	179,577	53	421	10,325	1,345	31,652	..	416
Prosperity Fund	35,374	46	88	4,848	11,930	2,274	..	190
Provident	15,272	21	23	6,356	6,825	..	..	665
Public	7,377	201	81	43,934	43,300	553	..	1,466
P S C, Employees.....	..not operating	..	..	53,618	40,325	..	..	7,062
Rapaport Mutual	53,618	138	122	36,398	165,475	..	..	1,512
Real Estate Owners	45,179	123	303	179,593	28,315	..	..	365
Relief	42,038	560	46	27,330	6,780	..	..	161
Riverside Business Men's	184,371	178	36	9,295	5,780	120	..	480
Russian Polish Progressive	29,840	62	136	9,198	2,024	3,441	..	15
Security	9,984	25	77	296	2,975	..	..	739
Sixth Avenue	9,542	3	21	6,456	81,845	250	..	4,562
Speedwell	6,091	53	349	79,201	88,715	..	..	2,937
Spring Valley	6,490	973	9	54,292	56,575	..	..	876
Standard	84,303	99,218	114	5,695	3,000	..	..	..
United	64,463	26	11	7,132	9,704	..	..	..
Unity	5,730	48	95	33,919	32,405	..	..	..
Universal	9,770	195	52	112,751	30,085	51,636	..	1,017
Washington	36,592	172	88	1,050	1,190	4	..	3,738
Welfare	114,403	83	71	14,330	17,925	..	..	..
West Side	1,325	89	65	..	..	..	..	..
Workmen's Circle	20,481	..	..	..	..	..	..	..
Yorkville .....	..	..	..	..	..	..	..	..
Totals	\$4,445,297	\$3,904,533	18,752	14,728	3,373,189	\$443,907	\$122,003	\$162,201

resources of \$568,034. The next year total assets nearly doubled and the credit unions increased in number to 68. The 1921 report indicates total assets of \$4,445,297, against \$2,303,871, the total assets reported in 1920, and a total of 82 credit unions reporting.

One difficulty has been encountered in New York which must be guarded against in any system of credit union development, namely the temptation to lose sight of service in an overeagerness to make the profits as large as possible. Particularly in New York City many of the credit unions are racial in character and without well-defined limitations on the scope of membership. As interest rates on small loans permitted by law are relatively large and the interest rate which the credit union may charge is not limited in the law, credit unions of this type are tempted to charge rates which, compared with ordinary bank interest rates, seem out of proportion to real credit union purpose, with resulting large earnings represented by large dividends.

This is again an indication of the evolutionary character of the credit union. Emphasis must be placed on keeping the interest rate on loans not inconsistent with service. It is quite probable that the perfected credit union law will fix a maximum rate which may be charged to borrowers which will work automatically to limit dividend rates. It is also quite possible that eventually—and there is much present evidence that such will be the fact—credit union dividends will be measured in large measure in terms of service.

Rhode Island

The Rhode Island credit union experience illustrates some of the difficulties which have already been discussed. The credit union law is in every way excellent, except that it contains no provisions whereby the fact of its possible value is called to the attention of the people of the state. Nor has any individual in the state seen fit to promote its use as a public service, and there is no organization of the type of the Russell Sage Foundation available to assist with the propaganda work essential to a complete understanding and utilization of the law. In a recent magazine article on this subject the writer expressed the opinion that the modest credit union development is due to the fact that there is nothing in credit union promotion to appeal to the most compelling human motive, namely selfish advantage. The motive behind credit union development must be altruistic until it is completely realized that we are all bound up in the promotion of average happiness as essential to the preservation and perfection of our democracy. Just why the credit union is something of vital necessity in the United States is discussed in the chapters on "Usury" and "The Proper Utilization of Newly Accumulated Capital." As Desjardins said, "success for the young democracies of this continent depends upon the prosperity and worth of life to the millions of workingmen who compose them." When this is generally appreciated there will be no lack of effort to utilize available means at hand for increasing the average of opportunity among the masses of the people as the most certain method

of insuring that stability in our social and economic life which is essential to the welfare of all of us. The primary need is an appreciation of the possibility.

The Rhode Island law was enacted in 1914. In 1915 the Credit Union Central Falls was organized in the city of that name. Mr. L. J. Morisette, the Treasurer and General Manager of the Credit Union, writes of its origin as follows: "Our credit union originated in a club and soon expanded to the parochial schools of the city. Through the members of the club and the school children older persons and business men opened accounts with us." The credit union reported to the Bank Commissioner in 1916 assets of \$22,110.35, a membership of 435 and loans of \$17,767.51 to 28 borrowers. By 1919 assets had increased to approximately \$300,000 and the membership to 1354. The most recent report of the Bank Commissioner, covering operations for the year 1921, indicates assets of \$607,440.77, loans outstanding of \$412,725, and investments totaling more than \$80,000. This credit union owns a modest building and has a surplus fund of \$5142, and a guaranty fund of \$813. Shares total \$55,795 and deposits \$538,116.99. At the time of the report it had 1362 members.

A recent letter from Mr. Morisette contains the following additional interesting statistical information. The membership has increased to 1868. The credit union did a total business during the twelve months' period ending May 31, 1922, of \$948,833, and, since its incorporation, in 1915, has done a total business of \$3,253,631. Its assets have increased since its last annual report to a present total of \$683,974.58.

The Credit Union Central Falls proves that the Rhode Island credit union law will work in practice.

Until 1920 this credit union was the only one in Rhode Island. In that year, largely through the instrumentality of Charles F. Donahoe, the President and General Manager of the very successful Massachusetts Telephone Workers Credit Union, a credit union was organized among the employees of the New England Telephone and Telegraph Company in Rhode Island, with headquarters in Providence. It first reported to the Bank Commissioner last year (1921), at which time it had total assets of \$18,750.10 and a membership of 654. Its most recent monthly report (June, 1922) indicates assets of \$38,979.12, outstanding loans of \$30,555.19, a membership of 775, with 631 depositors and 316 borrowers. The month's business totaled \$14,879.37.

In January of this year Mr. Thomas A. Slavens and Mr. Herbert F. Williams, both connected with the United States Training Station at Newport, Rhode Island, conceived the idea of organizing a credit union. To quote Mr. Williams: "We got the idea of organizing a credit union because of the high cost of living and the other deplorable conditions existing at the time, making it impossible to save any money and to procure the things really necessary to make life worth living. Men at the Torpedo Station were at the mercy of the installment houses."

The credit union was organized February 22 with an original membership of 26. The charter was granted April 6. The credit union has now (July, 1922) 353 members and several applicants under investigation.

The charter permits members to be taken from Newport and the employees of Federal establishments in the First Congressional District. The July (1922) statement shows total assets of \$3948.57, outstanding loans of \$2649.46 and 125 borrowers.

The following is a summary of the modest credit union development in Rhode Island:

<i>Name</i>	<i>Organ- ized</i>	<i>Members</i>	<i>Assets</i>
Credit Union Central Falls, Central Falls	1915	1868	\$683,974.58
Telephone Workers Credit Union, Providence	1921	775	38,979.12
Peoples Credit Union, Newport	1922	353	3,948.57
Totals		2996	\$726,722.27

I recently attended the first meeting of the Welfare Council of the Providence Post Office devoted to credit union discussion, at which meeting the unanimous sentiment expressed favored credit union organization. In Rhode Island, territorially a very small state, the operation of a few credit unions should normally result in an increasing credit union development. Enough has been done to point the way.

Utah, South Carolina and Maine

Credit union experience in Utah, South Carolina and Maine discloses some interesting facts. The Utah law doesn't work at all. Whatever its original purpose, it is not a credit union law. The South Carolina law is almost as unworkable, but can be made extremely useful by amendments which are now being prepared for the next session of the legislature. The Maine law is a special act, authorizing the organization of a single

credit union, which credit union is, however, working out so well that the logic of a general law would seem to be unanswerable.

Utah

The Utah law (Chapter 8 of the Corporation Law, Section 1060-1082) is entitled "Coöperative Banks for Personal Credit." It was enacted in 1915. It is quite generally referred to as a "credit union law." It provides for shares of a par value of \$5 payable in cash, an entrance fee of \$1, and that granting a charter is conditioned on the subscription to at least 400 shares of the capital stock, 50 per cent of which must be paid in cash. The fundamental credit union purpose is to provide a system adapted to the individual who must, of necessity, save in very small amounts if he is to save at all, which system can be operated by a group which, from the very nature of the case, could not subscribe in advance to any substantial initial capital stock. There are other conditions contained in the law which differentiate it from a typical credit union law. The result has been, quite naturally, that no use has been made of this law. My correspondence indicates that an effort will be made to amend this law at the next session of the Utah legislature so that it may conform with good credit union practice.

South Carolina

South Carolina passed a credit union law in 1915, in its terms resembling the North Carolina enactment, but omitting the very essential provisions of the North Carolina law whereby the state assumes responsibility

for propaganda and organization work. The necessity for such a provision becomes even more self-apparent in states where it is contemplated that the law will be utilized by small farmers living in sparsely settled districts without means of knowing that there is such a law, if such be the case, or how to make effective use of it if, by some miracle, the fact of its existence comes to their attention.

There are other difficulties in the South Carolina law. Earnings are limited and interest on deposits also limited "to the rates usually allowed by savings banks in the vicinity." The entrance fee is high and the credit union may loan its money to members or deposit it, apparently shutting out the possibility of other investment. Shares are payable in cash, again discouraging the small saver, and there are other minor difficulties with the law.

This difference between the North Carolina law and the South Carolina law is recognized and fully appreciated in the source from which amendments will most logically come. The Clemson Agricultural College is the Agricultural and Mechanical College of South Carolina. Its Board of Trustees is also the Board of Agriculture of the state, and from the College the agricultural policy of the state is directed. Two of the College faculty, Dr. W. W. Long and Dr. W. H. Mills, both of whom are closely identified with, and fully informed as regards, conditions among the rural population, are much interested in the subject and it is planned to present to the 1923 session of the South Carolina legislature such amendments as will, in their judgment, make the law effectively useful. Until

recently Dr. Mills has been Counselor of the United States Veteran's Bureau in charge of disabled soldiers taking vocational training at the College. July 1 (1922) he was appointed Specialist in charge of Farm Financial Relations for South Carolina, representing the United States Department of Agriculture. It will be his particular field to foster credit union development in the state and also to further the promotion of mutual fire insurance among South Carolina farmers. His appointment doubtless marks the real beginning of credit union development in South Carolina.

Meantime Dr Mills, in order to try out the credit union plan, organized, among his vocational training students, a credit union despite the difficulties contained in the law. This credit union is called the Clemson College Coöperative Credit Union. It opened for business January 1, 1922. At the end of the first month it had 23 members and had done a business of \$107.50. Between January 1 and the middle of June loans had been made totaling \$2118 10. By that time the membership had increased to 42. Dr. Mills writes of his most interesting experiment as follows:

"The Credit Union has so far not lost a penny. It has done more than we claimed for it, in encouraging thrift and making it easy to borrow at reasonable rates for legitimate purposes. It has been a profitable investment for the men and, best of all, has taught a good many of them the first principle of sound credit and banking."

It would seem probable that, under the skillful and inspiring leadership of Dr. Mills, the credit union will eventually prove an instrument of great service to the small farmers of South Carolina.

Maine

The Maine law is interesting but a bit illogical. It permits telephone workers in the state to organize a credit union and there it stops. As the Telephone Workers Credit Union in Maine has been organized and is doing extremely well, this law may be said to be 100 per cent successful. Mr. Donahoe was primarily responsible for the law, first, however, attempting to secure a general enactment. The credit union operates among the employees of the New England Telephone and Telegraph Company in Maine and is again the result of the great success of the credit unions of employees of the company in others of the New England states. The law was enacted in 1921 and the credit union organized in 1922. Within five months ninety per cent of the telephone workers in the state were enrolled as members. Its July (1922) statement is as follows:

<i>Assets</i>		<i>Liabilities</i>	
Loans	\$19,216 14	Shares	\$7,806 45
Cash on hand and in bank	2,341.52	Deposits	13,031 48
		Guarantee Fund	177 09
		Undivided profits.. . .	542 61
Total	\$21,557 66	Total	\$21,557.66

Wisconsin

The Wisconsin law was enacted in 1913. Professor James E. Boyle, of Cornell University, in his book, "Agricultural Economics," makes this pertinent comment relative to it: "It is an interesting question for the student investigator why states like Wisconsin,

with a model law on credit unions, have no credit unions? Does it mean that the present banking system furnishes the farmer with all the credit he is entitled to?"

As regards Professor Boyle's question the answer may be yes and no. It may be that the individual small farmer, who must get credit, is often not entitled to it when subjected to the tests whereby credit is determined by a bank. If so, the fact that he cannot get it does not relieve his difficulty. The considerable sorts of difficulty arising from this lack of credit are well described in Professor Boyle's book. The problem then is to create for this creditless man a source of credit. One way is to get him saving money. As he can only do this in small bits some system must be made available for him which specializes in bits of saving. Such a system is the credit union. Further, while individually not entitled to credit by the same standards, it may be that if he pools his possibility of credit with other farmers, together they may be entitled to a credit which they would none of them have individually. Again the credit union makes this possible as indicated in a later chapter devoted to the rural credit union.

As to the implied query as to why such a law as the Wisconsin law does not work—the answer is that no effort has yet been made until recently to make it work. Credit union development depends on three elements—the law, knowledge of the law on the part of those who would naturally make use of it, coöperation in the technical matter of organizing a credit union

within the individual group in accordance with the provisions of the law. I can think of no better comparison than an ordinary automobile. The gasoline or other motive power is essential. The driver is essential if the automobile is to have direction. It is completely a misconception that a credit union law, concerning the existence of which practically no one in the state has knowledge, will work effectively without propaganda (which is the gasoline) and assistance in organization (which is the driver).

Writing July 27, 1922, the Bank Commissioner of Wisconsin says: "About ten days ago I held a conference with the Attorney General and the Attorney representing nine corporations which desire to reincorporate under the Coöperative Credit Association Law of the state. Articles and by-laws have been drawn up by the Attorney and were considered in the conference. Certain changes were either required or suggested and the papers will be again submitted."

This probably is the long deferred beginning of the actual use of the Wisconsin law.

In other letters the Bank Commissioner has referred to efforts which have been made to use the law which have been defeated because of its complexity. The Bank Commissioner has drafted a remodeled law, following largely the provisions of the Massachusetts law, which doubtless will be offered at the next session of the Wisconsin legislature. Meantime the experience of the nine companies now seeking permission to organize will doubtless afford valuable data bearing on the amendments to the law which will be offered.

value of the law is brought to the people who would normally make use of it.

It might be said that these laws are like three automobiles of fairly standard make, inoperative because of minor mechanical defects and a lack of gasoline together with the unfortunate fact that the normal beneficiaries of their manufacture have not been acquainted with their good fortune.

New Hampshire

The first credit union in the United States was organized in New Hampshire in 1909. It is the largest credit union in point of assets in this country. This credit union was authorized by Special Act of the New Hampshire Legislature and, as has been indicated in the previous chapter, owed its origin in large measure to Desjardins. At the date of its annual examination in May, 1918, it had total assets of \$251,377.48 and a membership of 1516. In 1920 it did a total business in excess of \$800,000 and had assets of nearly \$600,000, with a membership of 2349. The New Hampshire Bank Commissioner in his Report for that year comments on its activities as follows: "La Caisse Populaire Ste. Marie, of Manchester, is a coöperative credit association, established by special charter of the legislature for the benefit of people of limited means, mostly wage earners. In other states it would be classed as a credit union. Every member is a shareholder in the capital of the association. The shares are five dollars and the payments thereon are not fixed in amount, and may be the fraction of a dollar. Becoming a shareholder the member may open a savings

account. Here also the deposits may be as small as fractional parts of a dollar. No loans are made except to members. By vote of the association, twenty-five per cent of the deposits are invested in bonds approved by the Bank Commissioners. Since its organization in 1909 the association has had a steady and remarkable growth. It has accumulated over one-half million dollars of savings deposits and its reserve fund and surplus are nearly \$19,000. It has loaned to its members over \$400,000 and it owns bonds amounting to \$162,700. Its members number 2349. The increase of savings deposits the last year was almost \$200,000, a percentage of increase nearly equal to that of any of our savings banks."

January 1, 1922, this credit union had assets of \$806,316; March 1, 1922, assets of \$842,135.30. In 1921 it did a total business of \$1,050,587.

In 1921 New Hampshire passed an excellent general credit union law, without, however, propaganda and organization provisions. Again telephone workers were first to make use of it. In fact its enactment was due to the initiative of the executives of the Massachusetts Telephone Workers Credit Union, coöperating with the Bank Commissioner and various executives of La Caisse Populaire Ste. Marie, the splendid record of which credit union having, doubtless, much to do with the success of the effort to secure a general enactment. The success of Ste. Marie helped materially.

The most recent statement of the New Hampshire Telephone Workers Credit Union (June, 1922) shows total assets of \$9890.91 and a membership of 326. Loans outstanding totaled \$9081.50 to 148 borrowers.

The total business for the month of June was \$2860.07. This credit union has made a fine beginning.

The administration of this law is in most sympathetic hands. Writing June 24, 1922, Hon. James O. Lyford, Chairman of the Board of Bank Commissioners, says: "The La Caisse Populaire Ste. Marie, of Manchester, has been running for several years with great success and the Telephone Workers Credit Union has just been established. The former has been of great service to its members in teaching them thrift and in accumulating and investing their savings. The small amount that may be received on deposit enables the credit union to reach a class of people who would not ordinarily go to a savings bank, and yet, through the education they receive in these credit unions, they ultimately become savings depositors. Our experience is all in favor of the encouragement of credit unions."

North Carolina

At this date those interested in the possible value of the credit union to small farmers must turn to North Carolina. If Raiffeisen has come to America he has made his first stop in that state. The detailed study of the North Carolina law and its possible far-reaching value is so important that it is reserved for a chapter by itself. Much to encourage has come from the experience and much to discourage. More has been written of the North Carolina credit unions than of any other phase of coöperative banking anywhere in the United States. Exaggerated hopes have been stimulated by the early North Carolina development. Its importance has doubtless been overestimated, and yet

there are certain very sane and helpful conclusions to be derived from a study of the North Carolina experiment.

The credit problem of the small farmer has been and is so acute that the North Carolina law has been subjected to very close scrutiny. It is altogether probable that a system is evolving in the state which will have a profound influence on the short term rural credit problem wherever it is pressing in many parts of the United States.

The United States Department of Agriculture has indicated very considerable interest in the subject, as will be discussed later, as have various students of economic problems. The law has had its "ups" and its "downs." It has been an experiment in process of gradual perfection and, because so much depends on its success, there has been an over-eagerness to acclaim success before it could be really achieved. As the statistics indicate, these credit unions, unlike the larger and stronger urban credit unions, have had the greatest difficulty in surviving the wild era of economic disturbance incidental to the war. Some of the credit unions are made up of white men, some of negroes. Few of them have had the advantage of skilled management. The state supervision has, at times, lagged badly and the state has rarely made it possible to interpret literally the part of the law which provides for propaganda and organization work—all of which will later be discussed in detail. Many of the credit union members were cotton growers and, when cotton was abnormally high, it was not difficult to organize credit unions and money was relatively plentiful.

Cotton came down—way down—below the cost of production—and credit union loans suffered and security shrank in value.

The credit union system survived. That much may be said of it and that fact is of the utmost importance because it is most doubtful that credit unions in North Carolina will have to go through a like period of acute distress. While the system survived many of the credit unions didn't. The significance of this—the reasons—the lessons—all will be discussed in later chapters.

In a study of the statistics the wonder is, not that so many of these little credit unions failed—but rather that so many of them had the strength of purpose which made it possible for them to survive.

The following table shows the development covering the first five years of the law. It is taken from Department Circular 197 of the United States Department of Agriculture, prepared by Mr. V. N. Valgren and Mr. Elmer E. Englebert of the Farm Finance Section, both of whom have done much to promote credit union development, particularly within the rural sections of southern states.

<i>On Sept. 30</i>	<i>No of Unions</i>	<i>Mem- bers</i>	<i>Deposi- tors</i>	<i>Bor- rowers</i>	<i>Pd. on Shares</i>	<i>Deposits</i>
1916	7	267	58	72	\$2,169	\$2,212
1917	14	507	181	135	4,036	5,775
1918	16	655	282	161	7,531	11,940
1919	27	1,008	337	135	12,393	28,093
1920	33	1,887	436	281	20,821	52,343

<i>On Sept 30</i>	<i>Loans</i>	<i>Borrowed from Bank</i>	<i>Cash in Bank</i>	<i>Total Resources</i>
1916	\$6,341	\$3,057	\$963	\$7,451
1917	15,126	6,995	2,620	18,244
1918	21,919	4,551	1,924	25,325
1919	41,740	6,593	5,086	53,437
1920	86,333	22,311	9,011	102,103

CREDIT UNION DEVELOPMENT IN THE U. S. 101

MONTHLY FINANCIAL STATEMENT OF NORTH CAROLINA CREDIT UNIONS AS OF OCTOBER 30, 1920

Name	Date opened	Members	Depositors	Payment on Shares	Deposits	Loans	Boards	Borrowed from Banks	Cash in Banks	Total Resources
Valdese	Feb. 10, 1917	81	118	\$33,845 00	\$16,109 50	\$25,687 10	30	\$4,900 00	\$576 42	\$26,845 15
Bahama	April 14, 1916	48	53	610 00	19,683 95	20,170 36	26		674 47	21,746 93
Shotwell	July 11, 1919	51	6	842 23	6,315 72	9,101 53	25	2,800 00	45 04	9,582 91
Carmel	Jan 26, 1916	130	43	3,740 23	1,156 37	6,245 00	25	2,800 00	234 49	6,598 98
Juniper Level	Jan 25, 1919	49	6	668 00	387 68	4,326 00	12	2,800 00	524 50	5,096 59
Springfield	July 11, 1919	35	5	318 00	332 69	3,603 64	15	3,157 00	2 35	3,885 11
Lowe's Grove	Jan 20, 1916	69	50	1,345 00	3,673 37	3,673 37	24	430 00	75 83	3,830 00
*Sharon	Feb 10, 1916	62	91	916 85	1,726 50	3,425 00	16	800 00	17 32	3,455 00
*Rock Ridge	Dec 15, 1919	33	36	459 00	1,514	1,977 70	10	1,542 94	135 56	2,121 26
*Wendell	Aug 12, 1919	45	36	458 00	1,750 25	2,300 50	14	2,000 00	100 00	2,267 38
*Jeffries	July 12, 1919	38		257 37	341 95	1,794 38	12	356 86	4 42	1,808 93
Piedmont	April 19, 1918	82	14	957 78	576 00	1,341 50	23		13 13	1,443 80
*Mount Ulla	Jan 29, 1918	68	42	665 00	200 00	1,235 00	9	500 00	22 05	1,294 83
*Sadler	Mar 14, 1918	28	1	235 00	115 85	975 00	7	600 00	12 68	1,039 84
*Oakdale	Feb 16, 1919	37	3	820 00	3 81				831 01	831 91
*Biley Hall	Dec 15, 1919	36		791 50					800 50	800 50
*Dry Wells	Aug. 9, 1919	30	3	468 75	204 82	310 00	3		397 23	712 05
*Dureka	Mar. 17, 1918	43	7	440 75	23 50					679 50
*Laurel	Mar. 10, 1917	43	1	454 00	180 00	500 00	1		65 50	565 50
*Angier	Dec. 20, 1918	35	1	200 00	231 67				441 67	441 67
*Central	April 18, 1920	40	9	292 14	45 95				394 39	394 39
*Drowning Creek	Mar. 16, 1916	27	5	260 75					268 50	268 50
*Provident	April 12, 1920	49		260 75					116 50	251 50
*White Oak	Dec. 2, 1919	24	4	209 25	36 01	135 00	1			290 50
*Eastern Colum- bus	April 13, 1920	42		210 00					218 00	218 00
Cleveland	Mar 28, 1919	25	1	209 87	1 00	201 41	6		16 43	217 84
*Lakeview	Mar 20, 1918	27		210 00					210 23	210 23
*Progressive	July 21, 1920	27		200 00					203 75	203 75
*Kosin Hill	Feb. 20, 1919	20		145 00		80 00	1		70 00	150 00
*Gold Hill	Feb. 20, 1919	24		131 30		115 00	3		18 87	136 77
*Franklin	April 19, 1919	38	4	118 00	5 00	100 00	3		28 51	123 44
*Warren Plains	June 6, 1919	11		110 00					110 00	110 00
Dundarrach	Feb 27, 1919	13		78 00					76 30	83 05
Totals, October 30, 1920		1,388	440	\$21,216 79	\$50,824 56	\$89,503 20	277	\$20,570 80	\$7,446 23	\$99,764 48
Totals, September 30, 1920		1,387	436	20,821 79	52,943 81	86,338 44	281	22,311 36	9,011 95	102,103 12
Totals, October 30, 1919		937	367	12,520 37	35,366 46	45,757 19	129	7,247 30	10,312 42	58,101 00

*According to last report.

November 15, 1920, Volume I, Number 10, of the *Credit Union News*, at that time issued monthly by the North Carolina Division of Markets and Rural Organization, appeared. It was the last edition before the Deluge and marks the maximum development of North Carolina credit unions to date. Mr. J. M. Henley was then in charge of credit union development and Mr. B. F. Brown Chief of the Division. This issue contained the statement of credit union development in the state as of October 30, 1920, shown on the previous page.

Thereafter followed in rapid succession a series of most unfortunate events. The funds, from which were paid the expenses incidental to the administration of the law, gave out. Reports were discontinued. For some months it was not possible to hire any one either to promote credit union organization or to supervise the credit unions already organized. At just the time when some sort of supervisory assistance was most needed, none was available. Prices dropped. Cotton fell way off. As Mr. Yoder, now Specialist in Rural Credit and in charge of credit unions, writes: "Many of the credit unions had been organized in the flush period of the war in a sort of patriotic spell. There was no real need for some of the credit unions and they were organized because it was the habit to organize credit unions at the time, and they had no real service to perform. Some over-borrowed during the high price period of 1920 and when the drop in prices came were unable to meet their obligations. This was particularly true of about ten of our negro credit unions." There was difficulty with the management of some of them and, as has been said, supervision which, had it

been the equivalent of the supervision accorded to Massachusetts credit unions by the Bank Commissioner, might have had a very helpful influence in this time of stress, was lacking.

The situation is again in hand in North Carolina. After many months during which the credit unions were without supervision or direction Mr. Fred R. Yoder was appointed Credit Union Specialist. He has not been able to devote the whole of his time to credit union work, being a teacher at the North Carolina State College of Agriculture and Engineering and having also to do with a farm finance survey and a tenancy survey. He employed an accountant to make an examination of credit union books, which necessary supervision had been lacking for a long period and, as the result of his efforts, a financial statement as of January 1, 1922, has been issued. The credit unions listed are indicated on the next page.

They represent the survivors of the severe period of test.

This report reminds me of a sailing vessel I once saw come into port after a terrible storm. Many of the crew had been washed overboard. Some of the survivors were pretty well used up. The navigator had been lost and part of the cargo had been swept away. But the ship had come into port, without help, and in a few days was ready to go out again, fully manned and equipped.

Compared with the totals as of August 31, 1920, the total membership in the North Carolina credit unions had decreased from 1400 to 1002, their number from thirty-three to twenty-two, their assets from \$99,627.26

COÖPERATIVE BANKING

NORTH CAROLINA—FINANCIAL STATEMENT OF CREDIT UNIONS—JANUARY 1, 1922

Name	Members	Depositors	Borrowers	Shares	Deposits	Borrowed from Banks	Cash in Banks	Resources
Valdese	101	104	27	\$5,015.00	\$14,635.05	\$5,995.78	\$193.60	\$27,163.84
Bahama	61	60	35	730.00	22,866.16	.	2,243.52	24,738.71
Shotwell	60	4	33	1,240.50	4,390.38	3,218.36	.	9,324.66
Carmel	117	42	25	2,638.23	1,331.63	1,200.00	339.65	6,154.35
Springfield	46	.	22	646.63	.	3,100.00	51.88	4,356.31
Lowe's Grove	61	45	23	1,325.00	1,474.91	900.00	141.80	3,978.21
Juniper Level	38	7	3	558.57	197.10	2,017.00	6.77	2,878.78
Rock Ridge	54	.	24	623.94	.	705.00	114.95	2,004.01
Wendell	52	.	12	380.50	261.19	40.86	14.47	1,828.35
Piedmont	61	10	19	909.78	252.84	.	134.80	1,416.86
Central	34	12	12	896.75	.	840.94	15	1,218.03
White Oak	27	.	9	270.00	119.85	553.76	43.86	904.26
Dry Well	51	1	7	377.75	25.30	325.00	16.26	726.26
Oakdale	28	7	7	235.00	231.14	100.00	641.53	641.53
Laurel	42	.	8	440.50	.	200.00	52.49	622.94
Jeffries	24	.	8	193.87	.	.	9.51	579.99
Provident	44	.	8	364.00	4.00	.	32.58	569.51
Sadler	40	9	3	530.00	2.00	.	11.02	225.23
Cleveland	23	1	7	202.37	.	.	30.28	207.82
Eastern Columbus	38	1	13	180.00	.	.	85.18	85.18
Gold Hill	*	.	*	78.50	.	.	74.53	74.53
Progressive	*	.	*	80.00

* Number of members not reported.

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to \$90,819.45. The number of borrowers had increased and the total amount loaned (the real measure of credit union service) had increased from \$53,097.62 to \$84,152.79.

Some of the survivors may not survive permanently, according to Mr. Yoder. On the other hand, some credit unions did not report and the reports of some of them could not be tabulated because incomplete, and it is quite possible that there may be some credit unions that did not report which will yet "come back" with anything like a resumption of that general economic "normalcy" that seems so elusive.

Mr. Yoder comments on the Report as follows:

"No members of those unions listed need have any fears or misgivings because a number of the unions have gone out of business since the last copy of the Credit Union News appeared. The unions that have been dissolved, or are in process of dissolution, have closed because it was found that there was no distinct need for them in the particular communities in which they were organized. Those credit unions that are still in active operation have survived because there was and still exists a distinct need for them."

Further commenting, Mr. Yoder says:

"It should be noted that though there has been a decrease of eleven in the number of credit unions since 1920, the total resources of the 22 credit unions whose reports appear on this list are nearly as great as the resources of the 33 unions in operation two years ago. The last two years have been trying on the farmers. The great slump in prices of farm products involved a large number of farmers in debt. They have had to struggle to make both ends meet.

But better times are ahead and now is the time to support the credit unions and make them strong for the future."

The best news from North Carolina is contained in four significant statements contained in a letter from Mr. Yoder, dated August 10, 1922: (1) "We are employing for the coming year an accountant to look after the credit unions in the state and we are planning to give the closest possible attention to the matter of keeping the books and the employment of business principles in making loans." Such supervision is essential in any credit union system. With such a "pilot" more credit unions would have survived the period of distress. (2) "We are now planning to put a man full time on the job of looking after these credit unions and giving much more attention to the keeping of books and accounts than in the past." (3) "We have been in the credit union business in North Carolina just long enough to learn by experience where credit unions are needed, the conditions under which they can be successfully operated, and various danger points in their operation, and the successful means by which they can be made really serviceable. I believe that in the next few years we will organize a good many credit unions, but we are studying every community very carefully before we permit a credit union to be organized. We are just completing a farm finance investigation made in three counties of the state representing typical sections of the state for the purpose of finding out the kind of communities where credit unions are needed."

His fourth statement is most significant of all, as it indicates that the credit unions are again going forward

in North Carolina under competent direction: "During the year I have organized six new unions and I have tried exceedingly hard to avoid the mistakes that have been made in the past." And to offset this encouraging news from North Carolina comes a letter stating that Mr. Yoder is no longer in charge and that a new superintendent has been appointed. The difficulties in North Carolina may for the most part be traced to this fact that the superintendent of credit unions can, at best, but devote a part of his time to the job and the frequent changes of administration prevent any well worked out and continuous policy of administration. The law needs a more literal interpretation.

The necessity for such a law and some examination of the service which rural credit unions are rendering is reserved for the North Carolina chapter.

Recent Enactments—Virginia and Kentucky

The Virginia credit union law, enacted at the 1922 session of the legislature, has become effective as this is being written. As its enactment was made possible largely through the effective coopération of Richard W. Carrington, a prominent attorney of Richmond who is much interested in social service work in his home city, and of Nelson B. Rue, Executive Secretary of the Virginia Farm Bureau Federation, who is interested in the law from the viewpoint of its possible value to farmers in the state, it will doubtless be made most effective use of. Further evidence of this probability is contained in many inquiries from the state. I have this morning, for example, a letter from Oscar Cole of Scottsburg in that state in which he writes:

"I have secured three copies of the Virginia credit union law. This month, for us who grow tobacco, is a most busy time. In September I hope to see the organization of our credit union begun. I believe that it will be successful because so many of my neighbors are interested."

As this is being written a credit union is in process of organization at the Hampton Normal and Agricultural Institute at Hampton. From the viewpoint of the possible effective use of the law by groups of colored farmers not only in Virginia but in all parts of the South, this initial credit union organization is of the utmost importance. Allen B. Doggett, Jr., Instructor in Rural Social Economics at the Institute, has the organization of the credit union in charge and Thomas B. Patterson, formerly associated with credit unions in Rowan County, North Carolina, and at the present time stationed at the Institute as District Agent, is co-operating with Mr. Doggett. This credit union represents the beginnings of rural credit unions in Virginia and is ideally located.

The Kentucky credit union law was also so recently enacted that no material credit union organization could have resulted at this date. The employees of the Standard Printing Company of Louisville have, however, already organized a credit union. There is such substantial interest in the subject in the state that, if the right sort of publicity can be given to the fact of the law, material results should follow. Mr. E. E. Miller, Editor of the Southern Agriculturist, is giving the subject publicity among farmers where it will do the most good and others are coöperating actively to make the law effectively useful in the state.

Arkansas

While I have not listed Arkansas as a credit union state, there is a law in Arkansas (Act 632) which permits the organization of coöperative savings and loan associations similar in type to the credit union. The difficulty with the law, which prevents any considerable popular use of it for credit union organization, is contained in the provision that 20 per cent of the capital stock must be paid in in advance of organization. A similar provision in the Utah law has, as has been already indicated, prevented any general use of that law. The incorporation fee is \$30, another prohibitive condition, and, while the original capitalization may be increased from time to time, at the time of increase another \$30 fee must be paid.

Despite these difficulties Mr. O. P. Findley of Little Rock is organizing a credit union under Act 632 in connection with a fraternal beneficiary order. Mr. L. W. Lowry, also of Little Rock, has also been instrumental in organizing a credit union in Arkansas, making use of the provisions of this same law. The two efforts will afford valuable experience and will doubtless indicate just what should be the future policy of those interested in coöperative banking in the state.

As this is being written it seems quite probable that an effort will be made at the session of the Arkansas legislature which convenes in January, 1923, to secure the enactment of a typical credit union law which will combine the Massachusetts and North Carolina types.

The Province of Quebec

The results of the Desjardins experience in his home Province have a distinct bearing on the situation in the United States. The development has been varied. There are credit unions of farmers, credit unions of wage workers in the larger cities of the Province, Quebec and Montreal, credit unions organized among miners and settlers, and all of them of sufficiently recent origin so that it may be fairly said that the Canadian experience is contemporaneous with our own. The Quebec statistics also have a direct bearing on the general problem from the viewpoint of the student of coöperative banking. The fact that the Canadian credit unions have had ten years of additional experience is also of possible value, having some bearing on what may logically be expected as time passes in the United States.

As has already been indicated, La Caisse Populaire de Levis, the first of the Desjardins credit unions, was organized at Levis, one of the smaller cities of the Province, December 6, 1900. Its first monthly statement showed total assets of \$242.80. At the end of six months a total of \$1715.63 had been accumulated and, by the end of the first fiscal year, \$4935.54. The Levis credit union completed its twelfth full year November 30, 1912, with total assets of \$188,306.00. It had then made loans totaling approximately a quarter of a million dollars without a loss. M. Desjardins had this to say of his first credit union at that time: "Such is the astonishing progress that has been accomplished during twelve years of persevering labor among a pop-

ulation of wage workers, often unemployed, and during a period when the high cost of living has imposed a heavy burden upon the very modest budget of a workman's family. Nevertheless twelve years are nothing in a career which should last forever." M. Desjardins appreciated the permanent value of his work.

According to the Statistical Year Book for the Province covering 1919 this credit union had then reached total assets of \$791,200. Its outstanding loans then amounted to \$636,215. The next year, nineteen years after the modest beginning when twenty-six dollars was paid in and the credit union started on its career of usefulness, assets passed a million dollars. I have before me the most recent statement of the credit union (June, 1922), very kindly forwarded to me by M. Raoul Desjardins, who, upon the decease of his distinguished father, became Manager of the Credit Union. It now has total assets of \$1,088,762.82, 1192 members, 2285 depositors and 134 borrowers. Since its organization it has done a total business slightly in excess of eleven million dollars and has yet to charge off a bad loan.

Quoting Alphonse Desjardins:

"In order to show more clearly the popular character of these banks, let us consider the amount of the great majority of the loans made. Here are the principal figures:

Loans of less than \$10.	660
Loans \$10 to \$25.	1004
Loans \$25 to \$50	1070
Loans \$50 to \$75	541
Loans \$75 to \$100	651
Total	<hr/> 3926

"Out of a grand total of 5670 there have been 3926 loans made for sums varying between \$1.00 and \$100. These figures show that this institution is truly the 'bank of the people.' "

"What a comforting sight it is," wrote Desjardins in 1914, "to see the honest workingman or a settler coming to honor his signature. During the last twelve years, we have had numerous opportunities to enjoy that spectacle and it has been the complete fulfillment of our dream of basing credit on the merit of the man himself."

No real expansion was attempted by Desjardins for eight years after the organization of his first bank at Levis. During this period he treated the Levis Bank as an experiment, having in mind its perfection and, thereafter, the possible extension of the system in other parts of the Province. The broader development dates from 1909. In 1914 there were 150 Desjardins banks in Canada, none of which to that date had lost a penny in their transactions. In 1906 a law, recommended by M. Desjardins, had been enacted for their governance. These institutions now operate under the Quebec Syndicates Act of 1906 (Articles 6762 and following R.S.Q. 1909), amended by 1 George V (2nd Session), chapter 43, 5 George V and 8 George V.

Desjardins, writing in 1914, classifies his banks as (1) banks in urban centers with a laboring population; (2) banks in agricultural centers; (3) those in mining districts; and (4) banks among settlers.

Just as in his original work at Levis Desjardins was "aided by the devoted zeal of a number of citizens—the parish priest and several members of the Catholic

clergy of the locality," so elsewhere he found coöperation of members of the clergy of the utmost value. In largest measure the development in Quebec was the personal work of Desjardins, but throughout the intelligent and earnest coöperation of local priests plus the parish community spirit helped materially in the accomplishment of his splendid life-work.

Desjardins was the principal expert witness called in 1907 by the Canadian Parliamentary Commission which made an exhaustive study of the subject of co-operative credit. Although an official in the Canadian House of Commons and a very busy man, he found time, not only to direct the original bank at Levis, but also to deliver his message in all parts of the Province.

The following references are taken somewhat at random from Desjardins' book on the subject published in 1914 and indicate something of the experience and value of the various types of credit unions which he established.

"The coöperative bank at St. Sauveur, a suburb of the city of Quebec, founded in January, 1909, had assets in November, 1912, of \$24,802. The Quebec-East Peoples Bank, in another suburb of Quebec, organized in August, 1910, had, in thirty months assets of \$12,983, a general turn-over of \$32,000, 350 members and 91 borrowers. This bank had organized on the side a penny saving for school children which was working well."

"The oldest credit union in Montreal had been established in 1909 and by 1913 had assets of \$20,367, and had done a business in excess of \$111,000 "

"It took the credit union at St. Joseph twenty-three days to acquire assets of nearly \$2000."

"At Three Rivers, a small manufacturing city of about 18,000 population, a credit union organized October 17, 1909, had acquired assets in less than four years of \$43,280. The Windsor Mills credit union in eight months had done a business of \$2340 Each of the Parishes of St. Gregoire and St. Louis de Courville, both populated almost entirely by employees of the Montmorency Falls Cotton Mill, each had a credit union, one with assets of \$7000 and a turn-over in a relatively short time of \$35,000, and the other with assets of \$11,000 in two years."

The rural credit unions, established by Desjardins, are described in detail in the North Carolina chapter which is devoted to a study of the rural credit union.

As regards the credit unions established in mining centers M. Desjardins has this to say:

"Perhaps the worst ground to be chosen on account of the shifting character of the population is a mining center. In spite of the great difficulty, however, the coöperative bank (credit union) has succeeded here better than one could expect Thetford Mines is known all over Canada as the greatest asbestos mining center on the continent. The population of about 7000 works in the mines. The credit union was organized about four years ago: its assets are (1914) over \$30,000 and its general business exceeds \$100,000. Black Lake is another small mining town situated three miles from Thetford Mines. Its bank was organized four years ago. Without so considerable a showing as the Thetford Mines bank, it is nevertheless proud to point to a general turn-over of \$12,000 and to its numerous small loans granted to miners amounting in all to \$9143."

According to the 1920 Report, Thetford Mines credit union had increased in assets to \$64,233 and Black Lake to \$14,598.

"We now come," writes Desjardins further, "to the last group of people served by cooperative banks and, from our standpoint, it is the one which more than any other deserves attention. The value of the tree is to be judged by the excellence of the fruit and what we are going to relate should induce one to think of the future possibilities that are in store for the colonization of the immense territory yet to be settled in Canada. On November 2, 1910, at the invitation of the parish priest, we had the privilege of visiting St. Damasa of Matane. It was inhabited mainly by poor but courageous settlers. The population consisted then of about 700 souls . . . the settlers were very poor and we confess that we were not very hopeful about the success of the cooperative bank among them. Twenty-six months after it was founded this bank had, in round numbers, assets of \$6900 and showed a total business of \$25,356 78 "

"Ste. Euphemie is a very small rural parish, with a population of about four hundred. The land is poor and hilly, sparsely settled and opened up to farming within a relatively recent period. The idea of organizing a bank in this locality seemed a most hazardous one."

By 1920 it had assets of \$41,000.

Again quoting:

"We recently had the pleasure of meeting the parish priest of St. Joseph of North Temiscamingue and we asked him how the bank in his parish was doing. He said that it was more and more appreciated by the population and added that several Indians were the best members of the bank, some of them being so enthusiastic that they bought a share for their children on the day of their birth."

Thus comes the miniature bank to the very frontier to serve the aborigines.

The value of the Desjardins experience from a comparative viewpoint comes in the variety of conditions under which Desjardins established his banks and the uniformity with which they adapted themselves to varying needs. Credit unions of miners, of original settlers, of small farmers in little villages, of fishermen, of wage workers in Quebec and Montreal—they are all organized within the sort of groups which need this type of service in the United States. They were organized, too, under conditions which will not be exceeded in the United States for difficulty.

Something of the extent of credit union development in Quebec is indicated by the following table:

<i>Year</i>	<i>Number Reporting</i>	<i>Members</i>	<i>Borrowers</i>	<i>Loans</i>	<i>Business Done</i>
1916.....	94	25,028	6,696	\$1,641,258	\$5,534,246
1917.. ..	93	25,669	7,458	2,306,171	7,316,298
1918.. ..	98	27,593	8,056	2,623,095	8,956,728
1919	100	29,795	9,148	3,667,004	12,319,235
1920.....	100	31,029	9,213	4,272,584	15,260,725

The last figures are taken from the 1921 Statistical Year Book, the book containing the more recent statistics not being at this writing available.

An analysis of the loans made, contained in the Year Book, indicate clearly the nature of the operations of these miniature banks. The largest number of loans—1740—were between \$100 and \$200 in amount; 101 loans were under one dollar; 380 loans were between \$1.00 and \$5.00; 515 from \$5.00 to \$10.00. From \$300 up the number of loans drops rapidly, to quote the Report, "showing that the kind of business by these banks meets a real need among the rural and urban population, by enabling them to obtain money to meet

some unforeseen circumstances, such as accident, sickness, lack of work, purchase of farming implements, live-stock, seed grain, provisions by wholesale, fishing gear, tools or implements for working at trades, etc." Of a total of 14,386 loans 557 were individually in amount of \$1000 or more.

Before concluding this chapter some mention should be made of the Coöperative National Bank of the Brotherhood of Locomotive Engineers because those identified with its origin and management have also been much interested in credit union development. This is possibly also the logical chapter in which to make mention of the National Association on Credit Union Banks, the Coöperative League and other organizations which have taken an active and helpful interest in the matter of credit union promotion. The work of the Massachusetts Credit Union Association and of the Credit Union League will be discussed in detail in a later chapter.

National Association on Credit Union Banks

It is beyond the scope of this book to describe in detail the remarkable development of the Brotherhood Bank, which opened for business in Cleveland, Ohio, in November of 1920. Warren S. Stone, Grand Chief of the Brotherhood of Locomotive Engineers, is its very able President. Dr. W. F. McCaleb, who was, as is hereinafter indicated, at one time Managing Director of the Massachusetts Credit Union Association, is its First Vice President and General Manager. Dr. McCaleb also coöperated with Mr. Filene in the organization of the National Association on Credit Union

The following statistical analysis of the Quebec Credit Unions is taken from the 1921 Statistical Year Book

<i>Name</i>	<i>Assets</i>	<i>Loans</i>	<i>Shares</i>	<i>Deposits</i>
Almauve	\$65,598 45	\$61,134 00	\$5,459 60	\$55,466 25
Beauport	45,177 00	37,325 00	8,711 51	35,836 50
Bienville	4,888 27	4,206 00	3,579 10	35,511 61
Black Lake	15,679 03	6,764 81	12,738 47	1,419 11
Bons-Franc	6,864 91	1,815 80	321 00	6,140 32
Bonaventure	67,997 13	62,662 58	9,765 66	51,994 25
Champlain	21,964 33	18,352 83	5,505 70	17,830 63
Charlesbourg	34,437 23	27,185 83	14,843 76	17,692 88
Chicoutimi	43,773 90	41,102 11	23,822 63	17,830 63
Danville	22,955 85	18,160 51	6,661 21	13,931 21
Hochelaga	54,731 68	38,692 89	14,256 32	35,260 24
L'Ange-Gardien	159,361 27	139,224 50	24,591 54	119,017 58
L'Avenir (failed to report)	37,771 23	15,869 06	1,576 53	33,757 26
Levis	1,149,100 00	1,072,878 29	267,300 00	765,644 54
L'Immaculee-Concept.	117,944 38	89,974 87	45,532 47	64,607 03
Magog	550 90	25 00	237 00	138 77
Marie	88,048 20	56,550 63	10,434 62	69,791 16
Matane	23,045 26	20,216 21	9,909 27	9,366 51
Montcerf	1,008 42	228 60	181 10	667 60
N D de Stanbridge	26,164 46	14,412 75	1,310 00	22,963 68
N D de Mont-Carmel (Champlain)	59,882 43	53,126 73	7,898 80	44,287 77
N D de Mont-Carmel (Kamouraska)	137,664 79	113,733 65	9,352 63	120,420 95
Paquetville	1,676 01	1,450 23	657 54	417 60
Pointe-du-Lac	33,020 55	28,404 60	3,104 10	28,805 51
Quebec	102,267 69	94,629 65	57,604 71	32,386 70
Quebec-East	53,156 65	47,183 10	28,750 30	19,750 39
Rimouski	26,423 59	21,437 17	8,903 35	13,577 77
Robertsonville	39,733 43	33,235 56	1,333 71	35,430 45
St. Adrien-d'Irlande	10,636 54	8,600 60	951 85	8,837 21
St. Andre	19,117 53	15,093 32	4,647 00	12,311 04
St. Anne-de-la-Pocatiere	18,364 25	3,399 67	5,030 36	4,940 73
St. Benoit-Labre	30,949 54	20,877 82	3,024 01	26,282 76
St. Brigitte-des-Saults	18,291 89	8,597 50	1,038 70	16,185 95
St. Cajetan-d'Armagh	172,080 67	166,554 81	25,228 00	128,805 48
St. Catherine-de-Hatley	3,443 36	3,032 76	1,405 42	970 75
St. Cecile	42,541 94	33,632 40	11,512 88	29,165 82
St. Charles	137,814 75	118,158 41	27,551 62	91,991 63
St. Claire	153,687 73	138,128 41	3,880 00	149,894 06

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St. Croix-de-Dunham	15,441.59	10,023.67	1,419.10	13,117.83
St. Damien-de-Bedford	11,536.48	9,463.85	2,102.25	8,736.38
St. Donat	33,904.91	12,973.51	1,967.98	31,245.87
St. Etienne-des-Gres	38,861.28	7,400.00	2,666.17	35,687.06
St. Euphemie	48,286.67	41,050.09	17,586.06	73,085.47
St. Eusebe-de-Montreal	7,563.67	5,978.66	2,231.95	24,885.90
St. Claude	14,635.36	13,372.05	3,715.12	5,126.24
St. Eusebe-de-Stanfold	56,405.36	42,111.50	9,702.42	91,969.64
St. Felix-de-Kingsey	49,729.55	29,243.00	7,725.11	33,118.35
St. Francois-d'Assise	26,910.32	22,616.08	14,369.95	8,812.95
St. Frederic	36,248.69	21,485.00	5,760.50	29,258.32
St. Georges-d'Henryville	50,620.39	46,493.31	6,708.04	38,473.41
St. Germaine	184,155.61	141,867.22	24,311.37	139,943.80
St. Gertrude	12,112.89	8,794.25	1,244.10	9,795.91
St. Gervais	49,084.41	38,470.39	19,752.80	25,623.83
St. Hermas	29,464.54	26,665.25	2,767.95	24,348.26
St. Honore	16,309.60	15,433.73	2,737.78	11,761.99
St. Isidore	115,748.82	103,280.45	17,346.40	71,227.86
St. J-Bte-de-l'Isle-Verte	9,032.16	9,032.16	2,533.20	6,028.05
St. Jean Berchmans	2,197.42	1,068.70	596.83	1,393.59
St. Jean-des-Piles	39,119.99	23,984.28	1,762.20	34,687.47
St. Jean-l'Evangeliiste	85,732.98	68,523.63	4,430.88	76,700.81
St. Joseph-de-Levis	61,113.94	55,724.15	12,208.65	42,078.48
St. Joseph-de-Montreal	11,738.15	8,515.25	6,009.92	4,539.87
St. Justine	145,834.75	52,654.40	10,944.78	125,494.43
St. Leon-de-Standon	117,058.01	89,007.62	2,901.50	105,864.52
St. Le-de-Courville	22,714.12	21,640.50	4,491.42	16,519.13
St. Luc	22,839.58	14,378.40	551.65	20,979.34
St. Magloire	99,639.77	62,173.85	6,403.71	88,237.37
St. Malo	96,213.03	89,093.72	51,733.82	39,134.03
St. Marc	14,712.11	13,609.57	963.20	13,080.37
St. Martin	16,775.78	6,988.56	1,718.94	13,348.24
St. Mathias-de-Cabano	52,002.86	46,003.73	8,955.00	41,621.51
St. Mathieu	8,331.48	7,321.00	973.25	6,824.16
St. Narcisse	98,535.12	95,145.78	13,560.00	73,431.99
St. Omer	40,123.57	25,959.95	2,960.13	34,923.65
St. Onesime	42,690.55	26,752.90	2,807.35	37,645.67
St. Paul-de-Montminy	40,185.90	34,786.10	7,116.33	29,280.91
St. Philippe-de-Windsor	18,432.08	15,432.76	5,129.21	14,422.56
St. Pierre-de-Pike-River	46,535.91	37,417.78	1,335.21	43,040.68
St. Prosper (Champlain)	10,858.09	8,810.00	960.00	8,833.09

STATISTICAL ANALYSIS OF THE QUEBEC CREDIT UNIONS (Continued)

St Prosper (Dorchester)	\$91,523.14	\$73,642.49	\$4,873.32	\$79,069.28
St. Remi	16,019.68	9,585.75	4,720.46	9,915.99
St. Roch-d'Orford	11,936.55	14,829.66	5,602.74	10,506.80
St. Rosaire	1,833.97	1,146.61	127.00	1,277.90
St. Rose-de-Watford	33,638.33	19,895.07	2,374.45	38,884.63
St. Sauveur	157,927.59	144,618.86	53,486.06	90,288.50
St. Sebastien	154,148.68	105,595.47	14,542.35	120,717.54
St. Severe	35,210.65	27,064.64	2,060.69	28,823.25
St. Severin-de-Proulx	91,326.40	64,101.34	5,170.00	80,358.01
St. Stanislas	33,589.23	27,825.47	9,500.11	21,033.18
St. Sylvestre	18,944.11	8,524.91	1,673.86	14,621.36
St. Theophile-du-Lac	15,725.79	9,521.37	1,992.29	12,082.94
St. Ulric	69,475.55	60,890.24	23,565.40	37,579.16
Sayabec	48,185.85	39,864.62	13,238.81	25,997.33
Sherbrooke	51,954.91	51,904.91	20,536.21	23,876.87
Thetford Mines	26,192.83	23,682.70	2,240.61	22,007.09
Three Rivers	118,425.38	110,856.69	18,274.09	90,168.59
Waterloo	224,401.79	214,147.70	30,801.95	180,016.66
	65,823.49	48,866.29	11,677.70	50,613.05

The following comparison indicates the development of the Quebec Credit Unions for one year:

Year	Assets	Business Done	Members	Borrowers	Loans Outstanding
1919	\$5,114,380.14	\$12,313,236.37	29,795	9,148	\$3,976,940.98
1920..	6,306,964.83	15,260,725.84	31,029	9,213.	5,181,391.69

Banks, which organization for some time in 1919 and 1920 maintained an office in New York and did much valuable general propaganda work in addition to co-operating with the New York credit union development. Dr. McCaleb was called from the Association to the management of the Brotherhood Bank and has since been most active not only in the very successful organization and management of the first Coöperative National Bank at Cleveland but also, in coöperation with Mr. Stone and others of the Brotherhood, in the organization of similar banks elsewhere.

While the National Association did not function for any considerable period, yet it is interesting to note the type of men who were attracted to membership in it. The association consisted of C. A. Beard, Director of the Bureau of Municipal Research of New York; Albert J. Beveridge, Ex-Senator and nominee of the Republican Party to the Senate from Indiana; Ex-Governor T. W. Bickett of North Carolina; James M. Boyle of New York; Professor F. A. Cleveland of Boston, Massachusetts; W. W. Collier, Vice President of the State National Bank of San Antonio, Texas; Howard Coonley, President of the Walworth Manufacturing Company of Boston, Mass; Alphonse Desjardins (since deceased) of Levis, Quebec; Edward L. Doheny of New York; Edward A. Filene; Elwood Mead of California, Chairman of the United States Land Settlement Board; Dr. McCaleb; Max Mitchell, then prominently identified with credit union work in Massachusetts; W. P. Prenter, Secretary-Treasurer of the Brotherhood of Locomotive Engineers, of Cleveland; George E. Roberts, Vice President of the Na-

tional City Bank of New York; Albert Shaw, Editor of the "Review of Reviews"; Warren S. Stone, Grand Chief of the Brotherhood of Locomotive Engineers; Felix Vorenberg, a merchant, of Boston, and Senator David I. Walsh of Massachusetts.

The Association membership was so widespread that it was difficult for it to function readily, but it accomplished much valuable educational work under Dr. McCaleb's most able direction.

Coöperative National Bank of the Brotherhood of Locomotive Engineers

The Brotherhood Bank operates under a National Bank charter. It opened November 1, 1920, with resources of \$650,971.77. Its June, 1921, statement showed total resources in excess of eight million dollars. I have no recent statement at hand, but understand that the growth has continued steadily during the past year and that present resources are in excess of seventeen million dollars. The coöperative feature of this Bank is thus described by Dr. McCaleb:

"While circumstances have prevented the bank from being wholly cooperative, yet in most essentials it is so operated; for example, fifty-one per cent of the stock is owned by the Brotherhood and forty-nine per cent by the members thereof in good standing; furthermore, dividends are limited to not more than ten per cent in any one year and the stockholders have agreed thereto. In addition, provision has been made for a distribution of earnings, after taking care of dividend requirements, surplus, etc., among depositors. Finally, it is the purpose and practice of the Brotherhood to make the bank serve the membership

in the way of finding for them good safe investments, in the matter of handling their estates for the benefit of their widows and orphans, in the direction of their accumulated savings to enterprises not designed to oppress them or any other man—all of which is cooperative ”

Several similar banks have either been organized or are in process of organization largely through the initiative of Dr. McCaleb and as a result of the success of the Cleveland Bank. These banks are being organized for the most part within large organized labor groups, but under state and national charters which permit them to do a general banking business. So far as possible the coöperative plan, which admits depositors to a share of the earnings supplementary to the interest on their deposits, is followed. Also the emphasis is placed definitely on the type of service which is of greatest value to the depositors of the individual bank. (Since the above was written, Dr. McCaleb has resigned as Manager of the Brotherhood Bank in order that he may take over the management of a Labor Bank being organized by the Central Trades and Labor Council of New York, which will be known as the Federated Trust Company.) So extraordinary has been the success of the Brotherhood Bank under the direction of Mr. Stone and Dr. McCaleb, and so rapid is the development of similar institutions within labor groups in other parts of the country, that it is quite possible that a new type of coöperative bank will evolve from this experience which will specialize particularly in the accumulation of the savings of wage workers within the larger organized labor groups. To

make a complete study of this development even in its present early stages is beyond the scope of this present volume.

I have found some confusion as regards the connection of the Brotherhood Bank and credit unions, based largely on a misconception of the status of the Bank, which is a Bank, like other National Banks, a member of the Federal Reserve System and differing from other banks in the important features above outlined. The credit union, as has been already pointed out, is a "bank in miniature," which could not if it would, and would not if it could, aspire to a regular banking business. It seeks rather to create a necessary supplement to the present banking organizations through a system which specializes in small units of saving and equally small problems of credit. Both Mr. Stone and Dr. McCaleb have maintained an active and coöperative interest in credit union development.

The Coöperative League

The Coöperative League, which is described as the "Central Educational Union of Consumers' Coöperative Societies," under the very able direction of its President, J. R. Warbasse of New York, has been and is actively interested in credit union development. A most able Banking Committee has been appointed which will report recommendations to the League Convention in Chicago in October, which Committee is giving careful consideration to credit union development. In addition to Dr. McCaleb, Dr. Frederick C. Howe, who has written and lectured authoritatively on the subject, is a member of the Committee. The All

American Coöperative Commission, which has its headquarters in Cleveland, particularly through its "Coöperative News Service," distributes much information relative to coöperation in general which is of great value.

CHAPTER IV

THE MASSACHUSETTS OR INDUSTRIAL TYPE OF CREDIT UNION

From the beginning there have been two types of credit union development. The problem which concerned Raiffeisen had to do exclusively with the short term credit difficulties of small farmers. In the United States there has been credit union development of this sort, as has been indicated, in North Carolina. How useful the North Carolina experience may be, from the viewpoint of the possible value of the rural credit union to small farmers in general in the United States, will be discussed in the next chapter.

Schulze-Delitzsch, however, confined his efforts to developing coöperative banking among wage workers and small business men and, in general, among city dwellers, and it is with a similar adaptation of the plan to wage workers in Massachusetts, as typical of a possible urban credit union development which might become national in extent, that we have to do in this chapter.

I take the Massachusetts experience because it is of a more state-wide character than that under the New York law, which is, thus far, almost entirely confined to New York City. The Hamilton Credit Union, for

example, organized among the employees of the Hamilton Woolen Company in the town of Southbridge in the western part of the state, is quite as successful as that of the Walworth Company employees in the city of Boston. There are also successful Massachusetts credit unions in Lowell, Lynn, New Bedford, Rockland, Salem, Worcester, Waltham, Holyoke, Chicopee, Fitchburg and other cities and towns of the state, and the variety of development includes workërs in mills, in department stores, in jobbing houses, and in such highly specialized industries as the Waltham Watch Company, the Dennison Manufacturing Company, Bird & Sons Company, and the like.

In addition there are very successful Massachusetts credit unions within social settlement houses, church parishes, among railroad employees, telephone workers, employees of the state and of a municipality, etc. There is one credit union which is composed exclusively of women and the oldest credit union in the state is operated by women but admits both men and women to membership.

The Polish National Credit Union of Chicopee is, as the name implies, composed exclusively of residents of Polish extraction, the Workers of Fitchburg mostly of Finns and the Skandia of Worcester primarily of Swedes.

The West End Credit Union is an organization of small business men, the Rockland Credit Union strictly a community affair, and there are, in the state, successful credit unions of members of organized labor bodies.

From such a variety of organization comes, naturally, a considerable variety of credit union experi-

ence and, from this experience, we may judge something of the possible value of credit union development in cities or among wage workers and determine whether or not the credit union plan is capable of general adoption wherever similar conditions prevail in the United States.

The first League or Associations of credit unions has also been organized in Massachusetts and, in that state, there has been propaganda work directed by other than governmental agencies and as a public service, and from a study of this effort may be deduced something of the proper method of approach in the matter of credit union organization in new territory.

Supervision is also close in Massachusetts and, within the office of the Bank Commissioner there is a department of credit unions, very ably and sympathetically administered, which makes accurate statistical analysis possible.

All of these circumstances combine to make the Massachusetts experience valuable. The state has been a sort of laboratory, in which various types of credit union organization have been developed, and, as with all experimental process, the good has resulted from rejection here and acceptance there—from trial of this and that—from failure and from success—until, today, the Bank Commissioner has said that the purely experimental part of the development is over.

From these experiments certain facts stand forth as quite conclusively established. There are, for example, a few well-marked types of development.

The Credit Union Within a Well-Established Industrial Unit

The credit union almost certain of success is that organized among the employees of a well-established industrial unit.

There are various elements which make for this success. To begin with, the prospective membership is within a limited area. The members have a previously existing bond of union. The right sort of clerical assistance is available. Not only are there bookkeepers who can do the clerical work, but, as in the case of the Waltham Watch Company, the manager may be paid by the Company and do credit union work exclusively. Incidentally this is not the best practice, for it is highly desirable that the credit union pay its own way, but when it happens the result is, of course, a decreased overhead.

Space for the office is often donated. The New England Telephone and Telegraph Company gives the Credit Union an office on the ground floor of the Telephone Company Building on Milk Street in Boston. The typical office, as has been stated, is located generally very close to the paymaster's window so that it is most convenient for the members.

It is not difficult within a specific plant to do the propaganda work incidental to getting members. Departments vie with each other in their efforts to have the largest proportionate representation. As will be discussed later, there is generally a well-defined credit problem supplying the normal means of investment.

Christmas Clubs and Vacation Clubs in plant credit unions add to the credit union service and business. It is not difficult to get intelligent credit committees, conversant with the problems of the people who work in the plant, nor to secure the service of older men in the company to serve on Supervisory Committees.

This type of credit union works so well in such plants as the Dennison Manufacturing Company, the Walworth Manufacturing Company, the Waltham Watch Company, the Hamilton Woolen Company, the Hygrade Lamp Company, the Lowell Bleachery, the Blake-Knowles Works of the Worthington Pump and Machinery Company, in such stores as the Wm. Filene's Sons Company, the Gilchrist Company, the Leopold Morse Company, the E. T. Slattery Company, etc., that it may safely be assumed that Credit Unions organized among the employees of a well-established (and by this I mean a going concern which will keep on going) factory, mill, jobbing house, store or other large or small industrial unit, will in all probability succeed. While credit union laws contemplate the possibility of credit unions of small membership, it has been my observation that a credit union of this type, to be certain of success, should have a prospective membership of at least fifty. There must, of course, in the individual case, be enthusiasm and understanding of credit union purpose. The credit union is unlike a bank in that the relationship is personal and the "esprit de corps" within the credit union membership is one of the essential elements of real success.



(Courtesy "System")

OFFICE—BOSTON & MAINE R. R. EMPLOYEES CREDIT UNION



(Courtesy "System")

CREDIT COMMITTEE MEETING, NEW YORK LIFE EMPLOYEES CREDIT UNION.



(Courtesy "Simplexities")

BLAKE-KNOWLES CREDIT UNION

(Employees Cambridge, Massachusetts, plant, Worthington Pump & Machinery Corporation)

the specific Desjardins type works as well under similar conditions in Massachusetts as in Canada.

National Credit Unions

Credit unions within groups composed of individuals of the same national or racial origin would seem to work extremely well in practice. This is due in part measure at least to the probable fact of previous experience on the part of some of the members with credit union organization abroad. I recall, for example, meeting an Italian, while organizing a credit union among the employees of a large Massachusetts plant, who helped materially in the various stages of organization, being familiar, prior to coming to America, with a credit union in Italy. He also found it not at all difficult to interest fellow-countrymen in the plant in the new credit union.

The organizers of the Skandia Credit Union in Worcester, Massachusetts, had in mind at the time of the organization in 1915 to accumulate a fund of possibly \$10,000 to be used for making small loans to people in Worcester County of Scandinavian origin. In its seventh year this credit union has just passed total assets of \$700,000. It is a model of efficient credit union organization.

In Fitchburg the Workers Credit Union was organized among Finnish people in 1914. It has been extremely well managed by John Suonimen, who has also organized and conducted other coöperative enterprises with such success that he doubtless ranks among the real leaders in successful coöperative effort in the United States. His credit union did a total business in

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1921 of better than \$650,000 and has assets of approximately \$400,000.

Just a year ago I assisted in the organization of the Polish National Credit Union at Chicopee. In eleven months it has assets of \$22,476.98 and in the month of July (1922) did a total business of \$46,706.45.

There are many very successful Jewish credit unions, among them the West End Credit Union of Boston, the first of the Massachusetts credit unions to own its own building. It has assets of approximately \$200,000 and is located in the heart of the populous West End of Boston.

Many of the large and very useful New York credit unions come within this general classification. The Japanese Credit Union, for example, as the name implies, is composed of Japanese residents and makes loans mostly to small merchants. Numbered among the New York credit unions will also be noted the Russian-Polish Credit Union, the Hebrew National Credit Union, the First Hungarian Credit Union, the Austrian Hungarian Credit Union and others of similar type.

Within Organized Labor Bodies

While organized labor has been and is much interested in the possible value of the credit union to its members, there has not been the activity on the part of labor unions to organize credit unions that would normally be anticipated. There are various reasons for this. Labor unions meet at intervals which do not, of necessity, conform well with the convenience of credit union depositors. Several unions are apt to share a

single hall, used by them at different times, which makes for difficulty in the matter of maintaining a place reserved to credit union use, where books of account and the other essential paraphernalia of the credit union can be kept apart from other and unrelated belongings of the labor bodies using the particular hall.

It has been found somewhat difficult to get the careful accounting which is requisite to successful credit union operation. Primarily, however, the difficulty doubtless may be traced to the fact that the individual labor union at its meeting has so much other business to transact and the meetings are held at such times that it is hard to "squeeze in" the credit union business.

Despite these difficulties the most amazing evidence of the capacity of the credit union to withstand abnormal strain and difficulty is afforded in the experience of the Massachusetts Carpenters Credit Union, which has its headquarters in Boston. I doubt if there is in the whole history of credit union organization in the United States and abroad an instance of such sturdy and courageous and efficient leadership in credit union management as that afforded by the record of James A. Bresnahan as Manager of this particular credit union. It was organized in 1920 and began to do business in June of that year.

Its charter permits it to enlist its membership from those belonging to the various labor unions of Massachusetts which have to do with the building trades and the labor unions as well. It started out in splendid shape but with the purpose of not making loans until it had first accumulated appreciable assets, the original

limit being placed at \$10,000. By September this amount had been accumulated and, at about the time the credit union was ready to make loans, the bank in which its funds were deposited was closed by the Bank Commissioner. This would have been enough to put an ordinary institution of this sort out of business, as the closed bank did not declare a dividend for several months, and, at this writing, nearly two years after closing, has not paid such dividends as would release half of the money tied up. Undaunted, Mr. Bresnahan set out to accumulate another \$10,000 and succeeded in so doing when there came a general disturbance in the building trades in Boston and such a period of hard times as again materially crippled the credit union.

Thereafter the credit union was obliged to secure funds to offset the estimated depreciation of its original deposits. This was accomplished and the credit union is today still a going concern and "going strong." According to the 1921 report of the Bank Commissioner it has assets of \$21,228.28 and did a business in 1921 of \$35,040.96. I know of no other case where a credit union has been obliged to withstand so severe a test, and the success with which this credit union has weathered the almost incessant storms which have thus far marked its voyaging speaks well of the possible virility of credit unions within labor bodies.

The Worcester Central Labor Credit Union, organized in 1915 among the members of the Central Labor Union of Worcester, has a fine record. It has assets of approximately \$30,000 and did a total business last year of better than \$50,000.

The Union Workers Credit Union of Boston was organized last year and, despite many original difficulties, is going along well as this is being written.

Enough has been accomplished by credit unions of this type to indicate how such a credit union should be organized and just what it requires for successful operation. There is doubtless a very great field for credit unions within organized labor bodies.

Credit Unions within Public Service Corporations and among Federal, State and Municipal Employees

The following data are self-explanatory:

<i>Name</i>	<i>Membership</i>	<i>Organized</i>	<i>Assets</i>
Telephone Workers Credit Union, Massachusetts	Telephone workers . . .	1917	\$403,000 00
Boston & Maine R. R. Employees Credit Union	Railroad employees	1915	39,821.58
City of Boston Employees Credit Union	Municipal employees .	1914	35,877.75
State Employees Credit Union	Mass State employees	1921	4,278.43
Federal Employees Credit Union	Federal employees, New York . .	1916	70,374 00
Municipal Credit Union	Employees City of New York . . .	1916	347,720 00

There would seem to be no doubt of the great value of credit unions of this general classification. The great success of credit unions of telephone workers now operating in Massachusetts, Rhode Island, New Hampshire and Maine will doubtless lead to similar organizations among telephone workers in other states as credit union laws, authorizing such organization, are enacted. As has been indicated, the possible value of the credit union to postal employees is appreciated by the Director of Personnel of the Post Office and the initial steps are being taken at this writing to organize the first credit unions of this character.

Community and Neighborhood Credit Unions

There has been considerable experimentation in Massachusetts with community groups. Within this type of credit union organization the greatest care need be exercised. The original preëxisting bond of union among the prospective members is apt to be lacking. It is sometimes difficult to arrange the business of the credit union so that it will meet the convenience of the members. The credit problem is diverse and the credit union may be tempted to lose sight of its function—to create credit facilities at reasonable rates—in its enthusiasm to make as large dividends as possible.

The overhead is apt to be higher because it is generally necessary to hire office space and sometimes it becomes earlier necessary to pay for clerical assistance and management. There is room and distinct need for this sort of credit union. Obviously wage workers who may not be eligible to credit unions within specific groups, have credit problems. It is quite probable, for example, that within large cities there will eventually be central credit unions operated by such organizations as the Massachusetts Credit Union League for the purpose of extending credit union service to those otherwise without credit union facilities. Given the necessary elements of proper management and this type of credit union is apt to prove most valuable.

In Massachusetts there are some very useful community and neighborhood credit unions. The following are typical examples of this sort of organization:

<i>Name</i>	<i>Organized</i>	<i>Assets</i>
Beverly Credit Union	1917	\$31,611 37
Beacon Hill Credit Union.. . . .	1921	27,063 92
Blue Hill Neighborhood Credit Union	1921	14,562 28
East Boston Credit Union	1913	9,512 00
Traders Credit Union	1914	39,609 77
Lord Beaconsfield Credit Union	1913	22,890 91
Shawmut Credit Union.. . . .	1914	34,641 97
Brockton Credit Union	1917	31,769 57
Lawrence Credit Union	1913	19,877 50
Mansfield Credit Union	1916	8,956 26
Salem Credit Union	1912	8,948 73
People's Credit Union, Winthrop	1918	27,128 09
Worcester Credit Union	1911	159,729 44

Miscellaneous

There are many other successful credit unions which do not come within any particular classification. The Industrial Credit Union, for example, is the oldest of the Massachusetts credit unions. It was organized within the Women's Industrial and Educational Union of Boston in 1910 and is operated by women. It has a very broad charter, enabling it to take members from residents and those working in greater Boston and has a very cosmopolitan membership. It is managed by Mrs. Caroline C. Anthony, who in addition, is one of the most active of the Directors of the Credit Union League. Its most recent statement shows assets of \$57,804.31. It did a total business in 1921 of \$76,205.47. There are two new credit unions, one organized within Hale House, a social settlement in the South End of Boston, the other within a similar group in the North Bennett Street Industrial School in the Italian North End, which I am watching with great interest as they are in process of developing a quite new field of credit union service.

So much for types of urban credit union organization in Massachusetts. The variety is sufficient so that the plan may be said to have been quite thoroughly tested under conditions which make for enough difficulty and for a long enough period to justify the conclusion of the Bank Commissioner that the credit union is no longer an experiment in the state.

Urban Credit Union Value

First the credit union seeks to increase the number of individuals having savings accounts. Some estimate of the necessity for the creation of a system which will accomplish this result in the United States is contained in the chapter on Thrift.

In the process of accumulating new capital the credit union automatically creates credit resources for the accumulators. The extreme need of such resources in order that usury may be effectively eliminated in the United States is reserved for the discussion contained in the chapter on Usury.

Thrift Promotion

Without detailed analysis of the necessity for thrift promotion it is obvious that there must be a vast number of people in the United States who can save only in small amounts. If they are to save appreciable amounts the accumulation must result from saving at regular and frequent intervals. The credit union is, as has been stated, geared down to this service. The President of the Telephone Workers' Credit Union, for example, informs me that most of the 6000 members of the credit union had, previously, no savings accounts.

The share payment in a plant credit union is so small—the date and place of payment so convenient—the appeal of the credit union so personal that, despite the often very small beginning, the accumulation rapidly increases as the credit union develops. Thirteen months ago the Etsco Credit Union was organized among the employees of the E. T. Slattery Company of Boston. It started very slowly and when its annual report was rendered last November, had assets of but \$273. In June its report showed \$5716 and last month (July) \$6281. The Walworth Credit Union was organized and has thus far operated during a period of extreme industrial depression, among the employees of the Boston plant of the Walworth Manufacturing Company. Its monthly statements from the time of its organization are most interesting as indicating how a credit union within an industrial unit gets its start and how it can develop despite the blight of industrial depression.

	<i>Assets</i>		<i>Assets</i>
January, 1921	\$2,622	November	\$4,008
February	3,017	December	3,632
March	2,315	January, 1922	4,994
April	3,287	February	6,049
May	2,434	March	7,195
June	2,708	April	7,883
July	3,472	May	8,925
August	3,717	June	8,351
September	3,553	July	9,413
October	4,432		

In the month of July this credit union did a business of \$12,841, as compared with a total business its first eleven months of \$18,153.

This is typical of the beginnings of an industrial credit union except that times are abnormal and a

much more rapid accumulation of savings may reasonably be expected when the plant is operating at full capacity.

The total accumulation of credit union savings according to the report of the Commissioner for 1921 was slightly in excess of \$4,000,000. Having in mind the development since last October (the limitation date for the Report) it is safe to assume that present assets approximate between four and a half and five million and that total present membership approximates from 35,000 to 40,000. It has been estimated by a Massachusetts Bank Commissioner that the state will be adequately served when there are 1500 credit unions. On the basis of the present average size of a credit union in assets and membership in the state this would mean newly accumulated savings aggregating approximately \$70,000,000 and new savers totaling in the vicinity of half a million people. This indicates something of the outcome of a logical credit union development, as regards the accumulation of new savings and the promotion of thrift among large numbers of new savers, in an industrial state.

How Saving Results

It is interesting to note what is apt to happen when this new habit of saving has been acquired. The Manager of a credit union of large membership in a department store recently told me how reluctant some of the members are to withdraw their Christmas Club savings. In the process of accumulating their initial savings they learn something of the value of money. They like to realize that they have a substantial bal-

ance in the bank but they realize also that it has been made possible only by a long period of regular saving. The net result is apt to be a state of mind that questions the desirability of spending the savings too freely and the experience of this Manager was that most of his members did not withdraw the total of their Christmas savings and that what they did withdraw they expended much more carefully than otherwise would have been the case. Thrift taught in a school so practical in its results is apt to become permanently a virtue of the individual who has acquired it.

It is quite general credit union experience that members are surprised that they are able to save money. Yet the whole business of selling millions of dollars of Liberty Bonds to wage workers on the installment plan was but a page out of the Raiffeisen book. "We are hunting," said the Managing Executive of one of the larger Massachusetts industrials to me recently, "for some plan which will continue the savings habit among our employees acquired by the purchase of Liberty Bonds on a time payment plan." A credit union solved his problem.

The net result of saving brings to the saver all sorts of new possibilities. It is quite common for a credit union member to buy an equity in a home with his initial credit union savings and to find himself in a state of pleased surprise that he is able to do it.

Other details of the use of credit union savings are reserved for subsequent chapters. It is established by the evidence of credit unions in all parts of the state of Massachusetts that they inspire wage workers to save and that they make saving easily possible. I

have found in the course of personal contact with Massachusetts credit unions that this is the testimony of all of them.

Banking Service for Wage Workers

But the credit union is not merely a thrift club. There are many excellent plans of thrift promotion but the credit union differs from them all in two particulars: (1) There is no profit resulting directly or indirectly to any one from the operations of the credit union, except to the members of the credit union. A thrift plan which involves weekly deductions from pay envelopes, the total resulting sum being deposited weekly in some bank, is a good proposition for the individual saver, if no better way of saving is available, but it is also an excellent proposition for the bank. The credit union differs from such a plan in that it concerns itself not only with savings but (2) with the use of savings, and it is managed by the members, exclusively for the members.

Before considering the larger service of the credit union—the creation of credit facilities for the members—let us examine for a moment other phases of bank service.

The Saloon Bank

It has been said in defense of the open saloon of pre-prohibition days that they were valuable as they afforded factory workers a sort of banking service. Saloons in my town were well located to serve thousands of factory employees who, on pay day, might need some sort of banking service—some place where large bills could be changed readily and checks cashed.

The saloon gladly performed this service. Had the service ended there, the saloon, in this regard, might have been rendering a real service. Unfortunately, the business of opening pay envelopes in saloons was very bad business for the contents of the pay envelopes. We had a local option law, and it was extremely interesting to note how bank deposits increased when the voters eliminated the saloon for a spell, only to fall when the saloon came back again. Opening a pay envelope in a saloon was one sure way to enjoy a wage reduction without the bother of a strike. A good many such envelopes were swept up after the bars closed while wage workers, who had spent a week accumulating a wage, left part or the whole of it safely deposited in the cash register of the man who owned the saloon—not temporarily at interest—but permanently without interest. No one interested in thrift promotion among wage workers and the elimination of usury wants the Eighteenth Amendment repealed.

All of this hasn't much to do, possibly, with the credit union. The point I started to make is that the credit union in the shop or factory, located at the member's elbow, performs banking service for him. Many pay envelopes are now opened in the credit union offices—with the difference that what is extracted and goes into the credit union constitutes a deposit in a bank at interest, and the service rendered has no unprofitable conditions attached.

The Wage Workers Credit Problem

Within practically every group of industrial workers there is a credit problem affecting, sometimes, a few

individuals in the group but, probably, a considerable number of them. For some time I have been going in and out of the larger New England industrial units and I have discussed the fact of this problem with executives, foremen, individual employees, selected groups chosen from various parts of some factory or store and at large and small mass meetings of employees. I have never yet failed to come into contact with the credit problem in some form or other. Occasionally it may not be acute but my average experience has been that, within any considerable group of men and women workers, an appreciable number of them need credit from time to time and must have it. What happens when they fail to get it is reserved for the chapter on Usury.

The efforts, where efforts are made, on the part of executives to solve the problem are of almost infinite variety.

In some plants—relatively few in number I hope—the attitude of the executives is that they are not concerned with the problem. If the employees' wages are attached by trustee or garnishee process, or an assignment of his wages is filed—out he goes. The ex-employee goes home to his family with no money and no job. This solution is based apparently on the theory that no wage worker should ever get in debt; that debt is always the fault of the debtor and that the way to treat an individual whose economic condition has resulted in debt is to eliminate, so far as is immediately possible, his wage-earning power. Such a solution is a bit illogical. An employee, knowing that such will be the result of wage attachments, will

go to any extreme to prevent such catastrophe, and it is this fear of consequences which is the best and most reliable business asset of the individual whose business is usury, as will be later discussed in detail.

I believe that this type of employer is passing along—giving way, just as old, out-worn and out-grown machinery must give way—to a bigger minded type—the employer who better understands the essential human relationships which must be established before there can be real coöperation and understanding between employee and employer. Only this can be said for such an employer. The business of wage assignments and attachments is an abominable business for every one concerned and, some way or other, should be rendered unnecessary.

The other extreme—and I have much oftener encountered it—is represented by the employer who makes loans to employees without interest. The difficulty with this plan is that it is economically unsound. The employee is getting “something for nothing” unless he is losing some part of his self-respect in the transaction and, when such is the case, he is paying too much. The employee who doesn’t place high value on self-respect takes advantage of such a situation and borrows quite often when not fairly entitled to credit. The employee who really needs credit may find his self-respect a handicap and refuses to make his pressing need known, preferring to do his business secretly with the usurer and pay the price.

“If I lend the money myself,” said the President of a large Massachusetts corporation to me recently, “and charge interest, the borrower resents the interest

charge. He thinks I'm getting money enough, without charging interest on small loans. If I don't charge interest, he is apt to feel that he is getting something for nothing and fail to pay it back. I find that lending money to a first rate employee often decreases his value for, some way or other, being my debtor, he changes his attitude toward me. Some mighty good men have been spoiled that way. I've tried several methods of solving this problem and none of them work." He found the solution in a very successful credit union now operating in his plant. "We have a most difficult problem," said the employment manager of a plant of national reputation. "A few of the men are making money by loaning to fellow-employees, charging them a dollar a week on multiples of five dollars loaned. I figured that out and it's over 1000 per cent interest. Other men are constantly being harassed by loan sharks and installment houses." This same Manager is now one of the most valuable Directors of the Credit Union League and his credit union one of the most useful in the state. In a mixed meeting of executives and shop foremen at another plant the president of the company made this statement: "We are interested in the credit union but solely from a thrift standpoint. None of our people ever have to borrow." One of the foremen thereupon spoke up: "The trouble is, Mr A., the men have to borrow from time to time but they keep it from you because they think that the fact that they need to borrow will hurt their standing at the office."

In later chapters something of the extent and the reasons for this problem will be discussed in more

detail. It is sufficient for the purposes of this chapter to point out that there is such a problem, to indicate briefly something of its extent and of the capacity of the urban credit union to solve it.

Why Do Wage Workers Borrow?

It is difficult to classify the loans which wage workers make and the matter is further complicated by the fact that there are many loans which it would be most valuable for them to make if they could, but which they are not actually compelled to make. The loans which, by all the harsher rules of the game of life, they have to make, are sometimes classified as Emergency Loans and sometimes as Remedial Loans. They have to do with sickness and death, with accidents and unemployment, with the acute need of money which always exists in greater or less degree wherever there are people and which, when not cared for by legitimate credit sources, results in usury. This type of loan is so important and the problem of usury so universal in the United States that a chapter will be devoted to it.

There is another sort of loan which may be described as loans which are made to better the borrowers. For example: the borrower may himself be attending night school, taking an extension or correspondence course or in some other way be attempting to improve his mental equipment and he may borrow to buy books, to pay teachers and to meet the incidental expense which arises when his ambition prompts him to fit himself for a more useful place in life. Or it may be that the borrower has a boy in technical school or a

girl in normal college and he may borrow to help them out with their tuition or books.

I recall one man who bought a small variety store in his home neighborhood which he is able to carry on with the help of his wife and unmarried daughter. He looks upon this store as a sort of insurance policy and is doing well with it. A credit union helped him buy it and he borrows from the credit union from time to time as he needs money for improvements, stock, etc. It is self-evident that the variety of such loans would be large and credit unions make many loans of this character.

Some urban credit unions are almost exclusively organizations of small business men. Such a credit union is helping open the door in response to the knock of opportunity. It may be true that opportunity knocks at least once on every man's door, but quite generally something is expected of us when we get the door open or we may need some sort of an instrument to get it open if it happens to stick. Credit is often such an instrument.

Educational Value

The possible educational value of the urban credit union will also be later commented upon. Why are many million dollars of small savings wasted annually in "wild cat" speculation while legitimate capital investments go begging? Is it because there is no available means of educating the mass of the people in the proper investment of money? Why is it estimated that billions of wealth is hidden—talents buried in the ground, unavailable for use because, like the third

servant in the Parable of the Talent of Silver, there is no faith and no purpose to make this money work—to add it to the effective working capital of the people? All this must also remain for a later chapter for it has to do with the very broad problem of the utilization of newly accumulated wealth.

A Personal Relationship

Having in mind the possible educational value of the credit union to its members the direct and indirect results of this sort of education become at once apparent. It must be borne in mind again that the credit union is a very personal affair. The membership is generally within a well-defined circle. The credit committee is composed of individuals who know the group they serve. If the credit union is in a plant, they either know or can get the knowledge they need, upon which a very accurate estimate can be made of the sort of credit service the credit union should extend to a given individual.

I had a talk a while ago with the president of one of the largest gas and electric companies in New England. He raised the question, "How do these credit committees determine credit—they know nothing about banking?" I asked him this question: "Would, in your opinion, three steady, reliable, level-headed men, working for your company, be apt to make a better credit diagnosis of one of their fellow-workmen's credit needs than an average security committee of your bank, assuming your workmen could go to your bank for credit, which he can't?" He saw the point. Credit in such a case is not determined by the same

yardstick that the commercial bank applies. The man's character—how long he has been on the job—how he treats his family—whether he drinks or keeps sober—his reputation among the men with whom he works—these are the most valuable standards by which this particular man's right to credit can be best determined. The question immediately arises—"But does it work out well—do the credit committees make bad mistakes?" and the answer is that the records of many credit unions in many places under many conditions indicate an amazing uniformity of good judgment and of honest and efficient administration.

Reasons for Safety

There are reasons for all of this. The law contains many safeguards. More important than safeguards in the law is the safeguard contained in human nature. The member of the credit committee, as a member of the credit union, is loaning, in part measure, his own money. He knows that he is responsible for the safe investment of the money of many of his co-workers and the net result is that credit committees operate not only intelligently but carefully. There is something very cheerful for the individual who seeks evidence of average honesty and the possibility of efficient management of money on the part of average folks, in the history of credit unions. The final laboratory test of the system in Massachusetts is contained in the reaction of the credit unions to a long period of general industrial depression through which they have been passing during the last eighteen months. They

have emerged from it without a blot on their record and without a single liquidation.

The Installment Problem

The business of educating people in the use of money has many interesting ramifications. For example, credit unions are beginning, in a very small way, to concern themselves with the problem of installment buying. Thrift will come as a result of decrease in waste and by curbing extravagance. Possibly the greatest single source of improvident and wasteful buying in the United States is the installment system. The installment house which enables people to buy what they need and does not overcharge for the service is performing a valuable service. An installment system which incites people to buy beyond their means and charges a usurious rate for the credit extended is simply imposing needless burdens on its victims.

In any event the fact that the individual can secure for immediate use something he would like to have, by mortgaging his future earning power must, of necessity, promote buying beyond the reasonable present purchasing power of the individual.

If every automobile being paid for on the installment plan should have a blow-out at the same time in at least one tire, the resulting explosion would, literally, be a "shot heard around the world." If every automobile belonging, in whole or in part, to an individual who cannot afford to own an automobile, should suddenly take wing, there would be congestion in the sky but no longer any congestion on the highroads. If every fur-coated girl you meet on a winter day could,

suddenly, afford the coat she wears, what a lot of vacant jobs there would be the next day! I realize that it is a far cry to the time when thrift will become one of our national virtues. And yet, as some good comes out of practically every combination of circumstances, however ill the circumstances may be themselves, it is quite possible that we needed the present depression to wake us up to the fact that, after all, life is a rather serious business. We lost sight of this fact when we came slipping, sliding, and, finally, bumping down from the exalted realms of service and sacrifice inhabited by all good patriots during the war. We hit a new low level in post-war realizations of wild and reckless national and individual life, normally resulting from the strain of living up to an abnormal high purpose. With the new adjustments thrift becomes not only an essential but a much more alluring virtue.

A Very Humble Example

The urban credit union is a persistent reminder to its members of this necessity of thrift promotion. I recall one case of a young girl—for convenience let us call her Mary—who was accustomed to buy all her clothes at an installment house at an average of 20 per cent advance over what she would have paid had she made cash purchases. By the time she got one skirt paid for, she needed a new one and she never caught up. Incidentally she bought, as is quite generally the case, most extravagantly and the quality supplied by the installment house was inferior quality.

After she had been in a credit union for a few weeks she had occasion to buy a coat and some one suggested

to her that she borrow the money from the credit union. She found that she could borrow for a coat at 6 per cent interest and, buying for cash at a reliable store, save the 20 per cent she used to pay the installment house. Getting the idea in her head, she decided to buy a less expensive and more serviceable coat. The credit committee made this suggestion to her and one of the members of the committee also informed her that a sale of coats was to be held shortly in a very reliable store. She decided to wait for the sale and finally bought a \$25 coat marked down to \$21.50. Had she bought at the installment house the \$40 coat she had in mind to buy originally she would have been getting about \$32 in value. It is an interesting little problem to work out just what the credit union did for Mary. The fact that when she got through she owed the credit union \$21.50 instead of owing the installment house \$40 is not the chief value of her experience. She had had a lesson in banking and credit and an object lesson in thrift. As she is depositing her bit in the credit union each week it will not be long before she is buying her clothes and paying cash for them. She will have unburdened herself from a system which not only was a continuous drag on her but which materially decreased the normal purchasing power of her wage.

In itself this seems a trivial case but it is with a multitude of such trivial cases that the credit union concerns itself. Personally, I am rather fond of Mary. She is average folks and, with the opportunity and happiness of average folks, the Republic, as such, must be primarily concerned.

This is a single instance of a theory working to overcome extravagance and to promote thrift. The credit union is capable of universal application wherever there are groups of wage workers. Multiply this sort of service by the number of opportunities which exist for rendering it, and the result might profoundly affect the character of the people. It is with such problems as this that the directors of the Massachusetts Credit Union League are concerned at their monthly meetings. Machinery is slowly but surely being perfected in one state which can be duplicated in other states—machinery which will have thrift for its product and education in the use of small savings for its by-product.

Coöperative Buying and Investments of Surplus

Urban credit unions are already beginning to study coöperative buying, seasonal buying and problems of investment of surplus and particularly the general interesting question involved—the use of credit to save money. This is also reserved for later discussion because the whole matter of coöperative effort—the reasons for success and for failure of the coöperative movement now in process of gradual evolution—is a matter of increasing national concern.

Urban credit unions generally, at some time in their development, pass the point which represents the maximum requirements for small loans to members. It may take the credit union a long time to reach this point but, after it is reached, the whole question comes urgently to the fore—what shall we do with the money not needed for small loans? It takes apparently a quarter of a million dollars to care for the small loans

of telephone workers who belong to the Massachusetts Telephone Workers Credit Union and already the matter of investment has become one of great importance as the credit union approaches a half million dollars in assets.

Wage Workers as Co-Partners

In some credit unions, as has already been stated and as will later be discussed in detail, loans are made to help members buy stock in the company for which they work. Men with constructive vision are beginning to see that the solution of the difficulties ever recurring between capital and labor is in coöperative effort. So long as all production must be accomplished by the effective combined use of labor and capital only waste can result from quarrels between the two as to the division of the profits resulting from their joint efforts. That is so self-evident as to be almost axiomatic. In such quarrels, which are raging in all parts of the United States as this is being written, the public, as is so often the case with the innocent by-stander, always gets all the worst of it. The credit union member who owns stock in the company employing him has entered a new relationship. He at least has this much in common with the executive of the company—he shares with him the desire that there should be a profit resulting from their joint enterprise. The great significance of these very small beginnings will be later discussed.

Urban Credit Unions under Strain

The success with which urban credit unions in Massachusetts have weathered the strain of difficult

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times has already been referred to. It may be illustrated by the experience of a credit union established in 1917 in a large Massachusetts industrial unit which does both national and an international business. This plant does a very large business in normal times and, as did so many other plants in New England, expanded during the war to accommodate a very considerable amount of war business in addition to its standard lines. The Credit Union developed rapidly as is indicated by the following figures showing total assets as annually reported:

<i>Year</i>	<i>Assets</i>
1917.....	\$4,775 41
1918	33,701 54
1919	108,826 88
1920.	157,013 99

In February, 1921, it reached its maximum in assets, a total of \$161,389.09.

At about this time came the period of readjustment for many of the largest New England industries. The war period was over, the immediate post-war period was likewise at an end, and the time of deflation at hand. This meant reorganization, a considerable decrease in the number of employees, much part time work and some wage reductions. The plant never shut down completely, but the reorganization meant temporary unemployment for some, permanent separation from the plant on the part of many and a quite general reduction of individual income of those who had been employed. Credit union members had put their money in in many cases as insurance against the proverbial rainy day, and it rained hard. Some had to borrow. More had to withdraw their savings en-

tirely. Some took out a part of what they had. The history of the credit union during the subsequent months reflects this situation.

<i>Month</i>	<i>Assets</i>	<i>Loans</i>
February, 1921	\$161,389 09	\$150,089 25
March	157,897 45	131,209 00
April	150,764 42	113,738 50
May	144,061 51	109,979 00
July	105,364 09	83,339 85

At about this point the Treasurer asked me what I thought would be the eventual outcome of the condition with which he was confronted, as more and more men were laid off and the strain on the credit union increased. I tried to console him with the thought that every cent in the credit union might eventually be withdrawn and in that event he could always have the satisfaction of knowing that the people who composed his membership had a hundred and sixty thousand dollars to help them out in time of need which they wouldn't have had but for his efforts in building up the credit union. Meantime he was showing great skill in so arranging his loans and investments as to meet the situation. Between July and September came the greatest drain.

	<i>Assets</i>	<i>Loans</i>
September	\$78,637 90	\$70,478.25

It will be noted that this credit union Manager had so conducted the business of his little bank that in less than eight months he had paid out more than \$82,000, a bit better than 50 per cent of his assets, and that he had working \$70,000 in loans, all to relieve his members, many of whom had of necessity permanently withdrawn from the credit union. This had

been done without a disturbance, without a particle of evidence of lack of faith in the credit union, without greatly discommoding any one, and by a man who always stoutly maintains in Credit Union League meetings that he "is no banker—but just a plain worker in the shop."

The bottom had not, however, yet been reached.

	<i>Assets</i>	<i>Loans</i>
October	\$74,126 71	\$63,112 75
November	73,278 22	61,753 50
December	72,671 52	59,657 50

With the beginning of the New Year the credit union turned the corner. Conditions at the plant improved and the credit union immediately reflected this improvement, assets increasing in January of this year to \$73,678. In May, just before the vacation season started (the vacation period always marks a temporary falling off in credit union assets owing to natural withdrawals for vacation money) the credit union had assets of \$82,350.83.

All credit unions of wage workers have suffered from a similar condition during this past year. That none of them have liquidated and that it is possible for an industrial credit union to go through such an experience as is above described, justifies the conclusion that the credit union has the capacity to survive difficult conditions.

Propaganda in Massachusetts

As has been discussed in previous chapters not only must there be a credit union law in order to assure the possible organization of the right sort of credit union

under state supervision but the fact of the law must be made known to people who would normally make use of it. In addition there must be some directing force to set in operation the first credit union organizations. Preferably some such provision should be contained in the law. Lacking this essential machinery in the law it has been found that credit union organization is a sufficiently attractive public service to inspire unselfish men to take the initiative in efforts to make the law effectively useful. In Massachusetts the prevalence of money lenders—their terrible exactions in usurious interest rates—led to the organization of an effort to combat usury through the promotion of credit union organization.

Edward A. Filene

As has been indicated, Edward A. Filene, a merchant of Boston, had become interested in the subject as the result of contact with credit union operation in various parts of the world even before the Massachusetts law was enacted and he coöperated with Mr. Jay and M. Desjardins in the preparation and presentation of the initial draft of the law before the Committees of the Legislature. This original interest Mr. Filene sustains, through years which have been marked by his continuous effort to develop credit union service in Massachusetts and to extend it from Massachusetts to the other states of the Union. This effort survives disappointments. It is said of Mr. Filene that he takes particular delight in solving problems which have been officially declared unsolvable. He has the sort of spirit which drove men on to conquer wildernesses.

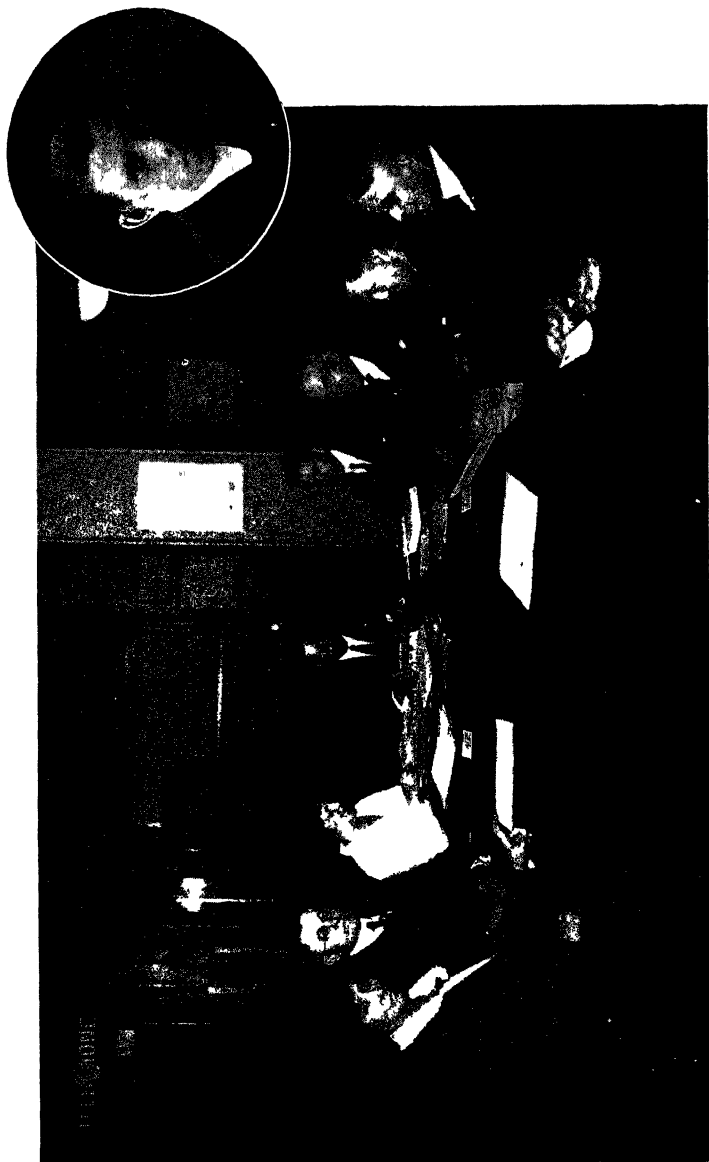
Finding wildernesses of tangled purpose in the relationships of men, which retard their onward going to better and finer possibilities of life, he tackles these wildernesses with all the courage and resource of the pioneer who could only look one way—and that way—forward. Mr. Filene was one of the four incorporators of the Massachusetts Credit Union Association in 1917 and later organized and financed the National Committee on Peoples Banks, when satisfied that the Massachusetts experiment could be applied nationally.

Later he made possible the Credit Union National Extension Bureau. In spite of the fact that he is actively and personally identified with many other activities, that his string of positive achievement includes not only the upbuilding and management of a great business but a very active participation in national and international affairs, Mr. Filene has found time to carry the credit union story personally to many parts of the United States. I have known him to prefer an evening at a humble credit union meeting to participation in some assemblage which would be classed as of great moment. If the credit union in the United States becomes national in extent a fourth will be added to the three great names now linked in eternal memory with the development of coöperative banking in the old world and the new.

Massachusetts Credit Union Association

The Massachusetts Credit Union Association was incorporated by Special Act of the Legislature in 1917 for the purpose of "disseminating information in respect to the benefits of credit unions, to organize and

assist in the organization of credit unions and generally to promote and assist credit unions." The Association continued in active operation until July 1, 1921. During these four years an office was maintained, a Managing Director employed and very much active work done to acquaint the people of the state with the fact of the law and to assist them to make use of it by organizing credit unions. Several prominent citizens of the state contributed of their time and their resources to the active work of the Association. Numbered among them was Felix Vorenberg, another Boston merchant, much interested in the promotion of thrift and the elimination of usury through credit union organization. Mr. Vorenberg served with distinction for a considerable period as President of the Association, directing its affairs with great wisdom and ability. The Board of Directors of the Association included such men, identified with the industrial progress of the state, as Howard Coonley and Henry S. Dennison. Joseph C. Morse, another far-seeing and philanthropic merchant, contributed much in the way of sage counsel and sound guidance. Max Mitchell, who had been prominently identified with the perfection of the work of the Federated Jewish Charities, also gave freely of his time and money. The Board included men prominently associated with organized labor in the state; Henry Abrahams, for some years identified with the Boston School Committee, and Michael A. Murphy, President of the Trades Union College; Judge A. K. Cohen and Superior Court Judge Edward A. Flynn were also on the Board. The membership was indeed a cosmopolitan group and to their



DIRECTORS—CREDIT UNION LEAGUE
(Insert—Frederick B Cox—President)

effective work the early credit union development in Massachusetts was doubtless due.

As Managing Directors, J. C. Bills, Jr., William J. Stanton and Charles W. Birtwell each rendered conspicuous service. For a time Walter F. McCaleb, afterward identified with the organization and management of the very successful National Coöperative Bank of the Brotherhood of Locomotive Engineers at Cleveland, was associated with Mr. Birtwell in the direction of the Massachusetts effort, devoting, however, the major part of his time to the organization of the National Committee for Mr. Filene.

The Credit Union League

Meantime thirty-six Massachusetts credit unions had organized the Credit Union League at a meeting held at the Boston City Club on September 18, 1920, and, when the Association discontinued the active direction of credit union development in Massachusetts in July, 1921, the League took up the work where the Association had laid it down. At this writing there are over fifty credit unions in the League, representing thirty thousand credit union members.

The League maintains an office in charge of Miss Frances Habern, who is its efficient Secretary-Treasurer. This office is supported in part measure by the sale of credit union supplies—the balance being made up by dues which are apportioned among the credit unions on the basis of assets with a small minimum and a very limited maximum. A plan was devised whereby credit unions buy their supplies through this central agency and, while a small profit is charged to

help defray the expenses of the office as indicated, there remains a great resulting saving to the individual credit union through the collective purchasing power of the League. The League operates through quarterly delegates' meetings at which each credit union is entitled to two official voting delegates. These meetings are partly business and partly social. Discussions of credit union problems are held. The Directors meet monthly for the determination of common problems. The League concerns itself with questions of legislation having to do with the small loans situation, with credit union legislation, with problems of accounting, of interest rates and investments, keeps in close touch with the office of the Bank Commissioner, encourages the formation of new credit unions and, in a word, conducts the common affairs of the credit unions of the state.

The first President of the League, Mr. Charles F. Donahue, is the President of the Telephone Workers' Credit Union and much of the success of the beginnings of the League's efforts was due to his fine capacity for leadership and direction. Mr. Frederick E. Cox is the present President. His service has been conspicuous in that he has been able to give the League the right sort of publicity. He also has devised plans which are in process of perfection as this is being written, which will result in a very rapid increase in the organization of credit unions in the state. These plans are referred to in detail elsewhere.

It will be noted that logically the direction of credit union affairs in Massachusetts has come into the hands of the credit unions, the Association having paved the

way by the organization of credit unions in sufficient numbers so that the League became a possibility. The League has now operated with conspicuous success for over a year.

Opinions

Of what value is the urban credit union? I know of no way of better answering that question and concluding this chapter than by asking a few representative men in Massachusetts, who know what the credit union is doing and can do in the state, what, in their opinion, the Massachusetts credit unions have accomplished. These men have been in the laboratory and have watched the Massachusetts experiments at close hand. Approving credit union theory, they have applied it practically in such manner that they have seen how the theory works in practice. They are men not given to carelessly expressed opinion, and their testimony is included in this chapter in substantiation of the conclusion of the Massachusetts Bank Commissioner that the period of urban credit union experimentation in the state is over and that the result of the experiments is a system which accomplishes the fundamentally valuable purpose of the experimentation. I have asked this question with this interesting result—that, while there is unanimity of opinion as regards the value of the credit union—there are many lines of approach leading up to this same opinion.

What Mr. Coonley Thinks of It

Mr. Howard Coonley is President of the Walworth Manufacturing Company with plants in Boston and in

Kewanee, Illinois. He is intimately associated with leadership in industrial New England. He served as First Vice Chairman of the Shipping Board during the war, is prominently identified with the Boston Chamber of Commerce and with Associated Industries. He has been prominently connected with credit union work and has an excellent credit union in his plant at South Boston.

"The credit union movement first came to my attention in the early part of 1919 and my investigation then convinced me that it was the soundest method that had been conceived for making it possible for worth-while people of modest means to obtain necessary funds from time to time at a reasonable rate of interest. Even more important, it was a wonderful method of teaching the principles of thrift and the benefits to be derived from setting aside a portion of the income, no matter how small the income might be. In practice, credit unions properly undertaken have shown remarkable results. We started one in the Walworth Manufacturing Company which has been, from the first, a great asset to our employees. I have been instrumental in starting two others among groups in whose activity I was interested with excellent results. I am confident that no sounder movement has been undertaken in a long time."

The Mayor of Boston

The credit union which operates among the city employees of the city of Boston was organized by Mayor James M. Curley, who writes about it as follows:

"The one agency for the combating of usury and for the promotion of thrift, whose genuine service and usefulness has been demonstrated for years, is the credit union. As

unions among the employees of the Company as follows:

"I feel that these credit unions have been thus far managed by the employees in the interest of fellow-employees, both as depositors and borrowers, and that they have rendered a distinct service in this dual capacity. They have encouraged thrift and have made it possible for their members to borrow needed funds with self-respect and at reasonable rates of interest. I know that in some cases the credit unions have helped employees out of the clutches of loan sharks, and I have no doubt that, through their plan of operation, they have prevented others from falling into this unfortunate situation."

An Author's Opinion

Ray Stannard Baker of Amherst, Massachusetts, writer and authoritative investigator of social and economic problems, has long been interested in the Massachusetts credit union development and has written authoritatively on the subject:

"As you know," writes Mr. Baker, "I believe thoroughly in this movement. In this time of disorganization of world affairs and of pessimism on the part of many thoughtful people over the difficulties that lie in the way of the greater forms of coöperation, it is refreshing to see this springing out of the soil, among common people where it is laying the firm foundation for a new economic civilization. In places where I have seen it work, it is already beginning to revolutionize local community life."

The Personnel Director of the United States Post Office Department

The D. M. C. Credit Union was organized some years ago among the employees of the Dennison Manu-

facturing Company at Framingham. Under the leadership of its President, Mr. Henry S. Dennison, giant strides have been made at this plant in the study and practical solution of industrial problems. Mr. Dennison is a national authority on shop committees and profit sharing, and he expounds no theory which he has failed to test in actual operation. Mr. Dennison is now the Personnel Director of the United States Post Office, which work he has undertaken as a public service. His opinion on any subject having to do with the inter-relation of employer and employee has back of it deep study and practical application in a most successful major industry.

"Some fifteen years ago I came across the credit union idea. It struck me then as a very sound and permanent piece of social machinery, using the principles of self-government and self-help correctly and furnishing facilities for making small loans which are relatively quite as necessary as the larger business loans, and which our ordinary financial machinery neglects. I have been in fairly constant contact with Massachusetts Credit Unions since, and our employees took one up as soon as conditions warranted. It has been a successful and helpful device here, and I think in all places where it has been wisely installed. It is one of the solid, scientific, sober devices which will strengthen the foundations of our social fabric."

Finally—the Bank Commissioner of Massachusetts

The Hon. Joseph C. Allen, Bank Commissioner of Massachusetts, wrote recently of the credit union:

"I believe that the theory upon which the credit unions are established is fundamentally sound. They promote thrift

in the form of systematic saving. I think it may also be said as well that they promote thrift in borrowing, for loans may be made only for purposes which promise to be of benefit to the borrower, the object of the loan being the first consideration. This principle, therefore, introduces an element of education as to the distinction between good and bad borrowing. As a member of a credit union, a person of limited means is afforded an opportunity of obtaining credit facilities at a reasonable rate of interest for legitimate purposes."

CHAPTER V

THE NORTH CAROLINA OR RURAL TYPE OF CREDIT UNION

From the conclusions which I have known casual investigators to draw after brief investigation of Massachusetts credit unions I appreciate fully that the North Carolina story should be told by some one of the pioneers in credit union work among farmers, if the real value of the experience is to be determined.

Mr. Fred R. Yoder, now in charge of credit union development in the state, in a recent letter indicates quite clearly the pitfalls which must be watched for when one not immediately conversant with the North Carolina experience from personal and intimate contact with it attempts to draw conclusions from a superficial examination of it.

"It is useless," writes Mr. Yoder, "to be optimistic or pessimistic about business organizations of this kind. The only thing to do is to take the facts as they are and use them as a basis for further work with credit unions. This we are trying to do. I am afraid that there has been exceedingly much said about credit unions in the United States in the last ten years that is very much misleading. We have led people to believe that there is something magic about credit unions, when the fact is they are plain, simple business organizations that will thrive and succeed just to the extent that there is an economic need for them, and just

to the extent that they are shot through with economic business principles. I believe you can render no greater service than to show the need of this point of view. Almost every day I receive letters from some one in some part of the United States inquiring about our credit unions as though they were some kind of financial panacea for the rural communities."

It is quite probable that the North Carolina development has been overestimated, but if so there is a logical reason for it. The acute need of some system whereby credit facilities for small farmers may be created has doubtless abnormally stimulated a hope that the North Carolina rural credit union is such a system and, when applied wherever the need exists, will satisfy it. The experimentation period has, therefore, been watched with the same eagerness that the shipwrecked mariner, on his life raft, strains his eye towards a speck on the distant horizon, his hope that the speck may be land quite over-balancing his good sense, which, were the matter being viewed dispassionately, might assure him that possibly it is a cloud.

And it must always be remembered that the credit union, if it has a permanent value, owes it to the fact that it has to do with fundamental problems. One of them is the matter of eliminating usury, whether it be usury practiced on the wage worker by a "loan shark" or the usury to which a small farmer is subjected when obliged to pay time prices and secure his purchases with crop liens at usurious rates. This problem is as ancient as the hills and will not be solved in a day.

A Mr. Cheng came in to see me recently. He is a Chinese student who is making a very careful and thorough investigation of coöperative banking, having in mind that he will eventually return to his native land and make the beginnings of some sort of effective thrift promotion among his own people. The fact of chaotic conditions in China does not seem to disturb him unduly. There is a very great lesson in what he said to me, which I quote just as he said it: "I can go home and work for profit or I can try to serve my people. If I choose to serve I can serve but little. In three hundred years, perhaps the fruit will come."

It is difficult in America to get this perspective. Our development has been so rapid—cities springing up almost to the crashing of virgin timber—that to see the need of a thing drives one interested in its accomplishment to expect to be able to contrive immediate ways of doing it. The North Carolina law was enacted the year after the World War began and has not yet operated in normal times. It is a baby—the evidence would indicate a child of extraordinary promise, if those interested in its future will not insist on abnormal and precocious accomplishment.

With these facts in mind I know no better way of getting acquainted with the North Carolina credit unions than by submitting evidence as to their experience from individuals whose contact with them has been direct. This chapter must be one of testimony and the evidence is in the form in which it was originally received. The reader may determine from it his individual verdict as to the possible value of the North Carolina plan for small farmers.

Some Points of Difference between Rural and Urban Credit Unions

First, however, a few of the substantial differences between the urban and rural credit unions should be noted, lest standards which are applicable to the one be mistakenly applied to the other.

For example, urban credit unions are often organized within such large groups that a rapid and considerable accumulation of assets is made possible by the fact of a numerous possible membership. Rural credit unions, on the other hand, are more apt to be organized within sparsely settled districts or in small villages. An urban credit union is large, for example, if it has a membership of 6000. A rural credit union of 100 members would rank as a credit union of unusual size. Therefore we must accustom ourselves immediately, when we have the rural credit union under consideration, to credit unions of few members and small individual resources.

Obviously also it is much easier to find in the urban group the sort of individuals better trained in such matters as bookkeeping and general credit union management. Some of the North Carolina credit unions that have failed have owed their failure in considerable measure to the lack of the right sort of management and direction.

The credit problem differs materially. The rural credit union is primarily concerned with the farmers' short term credit difficulties, and the greatest service which the rural credit union has been able to render to its members has been to promote coöperative buy-

ing—the substitution of wholesale buying for cash, made possible by pooling the joint credit of credit union members, for individual purchases in small quantities at the highest retail price, often secured by crop liens at ruinous rates of interest.

The rural credit union may also have a greater social and community significance as will become self-evident as the story of some of the typical rural credit unions is told in this chapter.

Our experience with rural credit union service is practically confined thus far to North Carolina. We have, to supplement it, a considerable rural credit union development in the Province of Quebec which is not without significance in the United States as these Canadian credit unions of farmers are organized for the most part in small villages and operate within groups of the same general type of small farmer as the credit union would be most apt to serve effectively in the United States.

The North Carolina Law

The North Carolina Credit Union Law (Chapter 115, Public Laws of 1915) differs materially from other credit union laws in the United States in this very important particular. It recognizes frankly that the law, taken by itself, will not be effective unless it contains some provision to promote its utilization. Section 1 of the Law provides:

“There shall be established as a part of the Division of Markets and Rural Coöperation a superintendent of co-operative associations and credit unions, and such assistants as may be necessary, at salaries to be fixed by the joint

committee for agricultural work of the State Board of Agriculture and the State College of Agricultural and Mechanic Arts, whose duties shall be as follows: (a) to organize and conduct a bureau of information in regards to co-operative associations and rural credits; (b) upon the application of three persons, to furnish, without cost, such printed information and blank forms as, in his discretion, may be necessary for the formation and establishment of any cooperative association, or of any local credit union; (c) to maintain an educational campaign looking to the promotion and organization of coöperative associations and credit unions, and upon the written request of twelve residents of any particular locality in the state expressing a desire to form a coöperative association or local credit union at such locality, to proceed as promptly as convenient to said locality and advise and assist said organizers to establish the institution in question and (d) to exercise close supervision and control."

If this section of the law had been literally interpreted at all times since the law was enacted and if the state had provided sufficient funds to make possible this literal interpretation the North Carolina rural credit union development would have been, at this date, much more impressive. What measure of success has been attained in North Carolina has been due, in largest measure, to this provision in the law. What failure there has been may be charged to the organization of some credit unions where they were not needed—to careless and unskilled management and, primarily, to a failure to carry out this provision of the law in fullest measure.

It must be frankly recognized that, in the absence of a Raiffeisen, a Schulze-Delitzsch or a Desjardins,

devoting time and energy to the promotion of credit union organization, some provision similar to the above must be contained in a credit union law if the purpose of the enactment of the law is to bring credit union service to the people of the state.

The Lowe's Grove Credit Union

To visualize a rural credit union, let us examine the Lowe's Grove Credit Union of Lowe's Grove, North Carolina. No better description of a rural credit union has come to my notice than the story of this particular organization of small farmers, written by Roy H. Thomas of the North Carolina State Department of Education and published in the April, 1922, number of the *Southern Agriculturist*. I am indebted for its use to Mr. E. E. Miller, Editor of the *Agriculturist*. It might be noted in passing that the agricultural publications in the South are doing much to educate their readers in the possible value of credit union legislation and organization. Not only is Mr. Miller doing splendid work through his magazine, but Mr. Clarence Poe, of Raleigh, North Carolina, editor of the *Progressive Farmer*, is a pioneer in work of this character. Others of the progressive group of agricultural magazine editors are doing much to further the cause of credit union development, particularly among small farmers in the South.

The following is quoted from Mr. Thomas' article:

"That there is a need for satisfactory and convenient farm credit facilities and that the proper use of these facilities will improve the financial, intellectual and social welfare of a farming community is demonstrated in the work

of the Lowe's Grove Credit Union, Durham County, North Carolina. From a position of financial serfdom, bearing a burden of thirty-eight per cent credit imposed by the crop lien, supply merchants' system, this group of North Carolina farmers, in a period of six years, has been enabled to rise to a plane of financial independence, buying and selling where they please. Along with better business has come a better school and church, improved farming and more satisfactory living conditions."

Having thus stated the problem, summarized the need and indicated the general result of the application of the credit union plan to the situation, Mr. Thomas outlines in specific detail the experience of the credit union and the service which it renders.

"The credit union was organized in January, 1916, and was the first coöperative short-time credit society to be established in the South under legislative sanction.

"The union began business with thirty members, \$212 paid in on shares, and \$101 75 on deposits. Today it has sixty-one members, \$1325 in shares and \$1474 in deposits. It is located in the open country, six miles from the nearest city. On adjoining property is the Agricultural High School, the Community Church and the Community Fair Building. The members of the Credit Union own a quarter-acre plot of land and a two-room building where its meetings are held and where the farm supplies, which are bought co-operatively, are stored for distribution.

"Any man, woman or child, who is thrifty and of good character, may become a member by subscribing for one or more shares which are marketed at \$10 each. Regardless of the number of shares a person may hold, he has but

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one vote. The union is based on the principle of self-help and the financial strength of the community is mobilized for the use of those who live in it.

"The organization of the union includes a president, vice-president, secretary-treasurer, board of directors and loan committee. The officers serve without pay. The union is open for business any time during the day or night. The writer served as secretary-treasurer for two years and frequently negotiated loans at night or at five or six o'clock in the morning in order that a farmer might have cash to buy a plow, a cow or supplies.

"Loans are made only for productive purposes, and not for luxuries. For example, a farmer can secure a loan to buy a mule to cultivate a crop, but a request for a loan to buy an automobile would be refused. The loans vary in amount from \$5.00 to \$500.00 and most of them are negotiated on a twelve months' basis. All notes are secured by two endorsers, or by collateral such as live stock, or both. A loan of thirty dollars to buy a plow, a hundred dollar loan to purchase feed and commercial fertilizers, a loan of forty dollars to secure seed, cotton and corn—these indicate the character and diversity of the credit extended. Six per cent interest is charged on all loans.

"While only members of the union may borrow, anybody may make deposits. Four per cent interest, compounded quarterly, is paid on all deposits. Also an annual dividend of six per cent is paid on all shares. Sixty pupils of the Agricultural High School are regular depositors, having accumulated sums ranging from \$200 to \$300 each.

"The operating cost of the union has averaged a trifle over \$26 annually."

—What service—direct and indirect—has this Credit Union rendered?

"Since the Credit Union began business, it has made a total of \$43,000 in loans without the loss of a single cent.

"A coöperative buying and selling association has been a part of the Union since its formation. The purchase of \$8000 worth of commercial fertilizers in the spring of 1917 was the first effort at cooperative buying. On this order the farmers figure they saved \$2000, as the fertilizers would have cost that much more if they had been bought individually and on time as had been the practice. Today all supplies and equipment for the farms are bought co-operatively in carload lots. The members have erected a warehouse on a railroad siding one-quarter of a mile from the credit union building, thus making it easy to handle carload shipments. The records show that the union has bought approximately \$200,000 worth of supplies in six years at an estimated saving of \$30,000 to the members."

So much for tangible results. The intangible results are equally important.

"Soon after the establishment of the union the members realized that they must practice the best farming methods if the greatest returns were to be secured from the money borrowed. What kind of fertilizer should they buy—what variety of seed should they plant—what should they feed their hogs and where should they be marketed—were some of the questions that arose. This resulted in the credit union extension courses. Each winter the members attend a course ranging at length from ten to thirty lessons to study the best methods of farming. The teaching in these courses is done by the Extension experts of the State Agricultural College.

"A library of a hundred agricultural books and three thousand bulletins has been placed in the reading room of the credit union building. On an average half of the books

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and two hundred of the bulletins are in circulation all the time."

And, finally, Mr. Thomas writes:

"Better business, better farming and better living is the condition that is gradually being developed in the community. The union has met the needs for a reasonable short time credit for farmers; it has organized the financial and business life of the community; it has enabled many farmers to put their farming operations on a cash basis—thereby guaranteeing themselves escape from ruinous time prices. It has effected a considerable saving of dollars and cents to the community and it has enabled many farmers to operate their farming activities on a larger scale, to improve farms and buildings, to purchase improved farm machinery and to acquire home conveniences."

Having in mind what this credit union has done, it is interesting, before leaving it, to quote Mr. Thomas as regards the condition which prevailed prior to its organization.

"The Union was born of necessity. Practically all of the farms were small and were run on a one-crop basis, either cotton or tobacco. In most cases the farmers did not have cash enough to finance their farm operations for a year. On account of the difficulty of securing loans from a bank and the trouble of having the note renewed every ninety days the farmers were forced to mortgage their crops to supply-merchants in return for supplies necessary to produce the crops. Under this system they were doomed to failure from the beginning—a system that made them vassals of the supply-merchant, who charged them thirty-eight per cent credit for their supplies and dictated what they should buy, and when they should sell their crops."

Similar North Carolina Credit Unions

The Lowe's Grove Credit Union is a very practical demonstration of the possibilities of rural credit union service. It illustrates how, under the right conditions, the North Carolina law can be made to work in practice.

On the basis of such information as I have been able to secure, it may be fairly said that, of the North Carolina credit unions, the following have succeeded in similar measure: Valdese (101 members—\$27,163.84 resources); Bahama (61 members—\$24,738.71 resources); Carmel (117 members—\$6,154.35 resources); Springfield (46 members—\$4,356.31 resources). Other credit unions have done well in North Carolina but these probably are typical of the best product of the experimentation in the state to date.

Professor Branson's Testimony

Before making a further analysis of these rural credit unions a few sidelights on their experience to date may not be out of place. For example, Professor E. C. Branson of the University of North Carolina, in the October, 1920, issue of the *Southern Workman*, published by the Hampton Normal and Agricultural Institute at Hampton, Virginia, points out the necessity that a rural credit union law should provide a method whereby its utilization be assured. He, again, is qualified to testify from his personal contact and experience: "In other states credit unions have been what Mrs. Wiggs called 'ash-barrel babies.' They have come

into being in chill atmospheres, and have lacked the fostering care of friendly hands. But in North Carolina coöperative credit unions are the special charge and concern of the State Agricultural Department and the State College of Agriculture and Engineering. They are sheltered under a hospital roof." Unfortunately, carrying Prof. Branson's analogy a bit further, the parents of a natural child sometimes neglect it. This is apt to be true particularly if the family is so large that no particular offspring can reasonably expect the care and sustenance he needs. It has seemed to me that this is the difficulty in North Carolina—that not enough money has been forthcoming to do the propaganda, organizing and supervisory work contemplated in the law.

Present indications are, as discussed in a previous chapter, that there will soon be the necessary supervision and direction. Those who have hitherto had direction of credit union development in the state have done extraordinarily well, but they have not, recently at any rate, been able to give whole time to what is essentially a whole-time job and there have been periods without any supervision at all. Having all this in mind, the development in the state has been most extraordinary.

Attitude of the Department of Agriculture.

It would seem probable that this direction will not be lacking as new credit union laws, designed to serve small farmers, are enacted. In October, 1921, Department Circular 197 was issued by the United States

Department of Agriculture. It contains the results of studies and investigations of rural and urban credit unions by V. N. Valgren, Agricultural Economist, and E. E. Englebert, at the time Junior Economist, in Farm Finance. As a result of their most favorable conclusions as regards the possible value of credit union organizations among small farmers, various Directors of Divisions of Extension, stationed at State Agricultural Colleges, may become active in promoting appropriate legislation and credit union organization. Such men as F. B. Bomberger, Assistant Director of the Division stationed at College Park, Maryland, and Dr. Mills, at Clemson College, South Carolina, now also in the service of the Department, are doing splendid missionary work of this character.

In practically all states the agricultural policy of the state is directed from the State Agricultural College. No one, for example, could remain long at Clemson College, without appreciating the great value of the College to farmers in the state and from such sources as this should logically come, in increasing measure, not only interest in the credit union plan but intelligent direction of credit union effort. State Farm Bureau Federations are also very slowly, but none the less surely, beginning to show interest. Nelson B. Rue, Executive Secretary of the Virginia Federation, assisted to secure enactment of the Virginia credit union law. Hon. John E. Brown, a member of the Kentucky Legislature, was primarily responsible for the enactment of the Kentucky law. He also is identified with the Farm Bureau Federation in his state.

Professor Branson's Definition of a Rural Credit Union

Professor Branson, having the rural credit union in mind, has an excellent definition of a credit union in his article. "Credit unions are self-financing, mutual aid organizations which encourage and reward thrift and capitalize the character of the membership. They are not organized to make profit but to guarantee low rates of interest to members of meager means." He quotes John Sprunt Hill, who initiated the North Carolina law. "They are not banks. Banks are aggregations of money; credit unions are aggregations of men."

Speaking of the credit feature of credit union service, Prof. Branson says:

"Usually the landless tenant or homeless man is without credit of any sort, or he must pay impossible rates for money. They need to establish their own credit, that is to say financial and moral trustworthiness, upon the basis of thrift and character. There is indeed no other basis of credit than ability and willingness to pay what is due exactly when it is due."

He points out that the beginnings must of necessity be small and that the amazing results in Europe took sixty years to accomplish.

The Need of Rural Credit Unions in the South

Prof. Branson also discusses the necessity for the organization of rural credit unions, particularly in the South.

"The farm regions of the South need to be, in a far larger measure, self-feeding and self-financing. The change in

our crop systems must be made gradually and just as gradually we must become self-financing in our farm regions. The Credit Union Law in North Carolina offers relief for our landless, homeless multitudes. If they would be free of crop-lien thralldom and time-credit prices, a beginning must be made in thrift; and small savings by industrious, sober people of good character must be assembled and managed in a businesslike way under the guidance of friendly authority."

What the Original Rural Credit Unions Are Doing

He then goes on to point out how the North Carolina credit unions were already beginning to indicate how they could relieve the situation. "Already, in the credit unions that have been organized, feedstuffs, fertilizers and seed are bought coöperatively. The farmers' money is loaned among themselves for farm improvements and equipment. The farm coöperators do more than mere borrowing and lending. They learn to trust one another and to deal sagaciously with one another and with outsiders, according to approved methods of business. The credit unions are making business men out of farmers. They learn how to save and assemble resources—how to organize credit machinery and how to market credit among themselves. They learn the value of accounting, of keeping track of what they earn and what they spend. The whole family gets into habits of industry and thrift. Group life grows and flowers graciously in coöperative credit communities. If you doubt it, move about a little in Lowe's Grove or Valdese."

Negro Credit Unions

Another interesting phase of the rural credit union is discussed by Prof. Branson:

"Four of our thirty credit unions in North Carolina—the Piedmont, Franklin, Cleveland and Gold Hill unions—are composed of negroes. On February 20, 1920, their total payments on shares amounted to \$1355.15, their deposits to \$520 15, their loans to \$1015 95 and resources to \$1095.90. The beginning the Carolina negroes have made is distinctly creditable. If they rise to their opportunity the number of farm-owning negroes will quickly increase."

As was indicated in a previous chapter, the casualties among negro credit unions was most severe during the deflation period. It is interesting to note, however, that Piedmont survived and has now sixty-one members and assets of \$1416.86 or more than the total assets of the four quoted above prior to the period of depression. It had outstanding loans of \$1246.57 at the time the most recent statement was issued and is not included in the list which Mr. Yoder fears may be marked for liquidation. Cleveland has also weathered the storm of hard times, despite the fact of small membership and very limited assets. It also is apparently in fair shape and the Gold Hill Credit Union also remains on the most recent list, although so tiny that its name is a bit misleading.

Need of Proper Management

It is of course a fact that a credit union, however composed, must be properly managed. In Massachusetts there have been a few unsuccessful credit unions.

Their failure has been due, for the most part, to mistakes in granting charters to groups which did not contain the elements which make for successful credit union organization. While no credit unions have been closed by the Bank Commissioner in Massachusetts for mismanagement since 1915 and but four credit unions—all of very small membership and assets—have been so closed since the law was enacted, some have liquidated when it was found that there was no need for their existence. Others have “dried up” for want of proper direction and management. It has been my experience in Massachusetts that Mr. Yoder has the absolutely right point of view, namely, that there must be a need, coupled with proper management to insure successful credit union operation.

It is now the practice in Massachusetts, before a charter is granted, to examine into the matter of management and if the group applying for a charter cannot offer fair evidence that they will manage the credit union, if organized, properly, they are not allowed to organize it. As previously indicated, Mr. Yoder, who now has the North Carolina credit unions under his direction, recognizes this need of a careful diagnosis before a new charter is granted, and his more recently organized credit unions will doubtless be as efficiently managed as those which have succeeded so well.

The Possibility of Success of Negro Credit Unions

I am not qualified to pass on the probability of finding, within groups of negro farmers, the sort of managerial ability which will make for successful credit union organization. There is no question in my mind

that the capacity for management can be developed. I well remember talking over with Professor Mills the possible value of the credit union to the negro farmer. We were standing together on the Clemson College campus and my attention was called to the roofs of some apparently fine farm buildings just visible to the north of the town. "That," said Professor Mills, "is one of the finest farms in South Carolina. It is a model and shows just what intelligently applied industry will accomplish. It is operated by a negro and is the result of his own splendid efforts." Those roof tops have lingered long in my memory. They are a sort of harbinger—indicating much that is possible in the progress of the black race where progress should be most logically expected.

Mr. Patterson and the Cleveland Credit Union

Continuing the effort to get a picture of rural credit union service by coming in as close contact with it as possible, the following extracts are taken at random from a considerable correspondence with Thomas B. Patterson, for some time Agent for the North Carolina Department of Agriculture, stationed at Salisbury. These extracts are included at this point because they illustrate rather specifically typical rural credit union experience under varying conditions. The purpose is again to get a personal look into credit union activities through the eyes of a man very much on the job.

Writing August 9, 1921:

"I am greatly interested in the credit union system for our farmers. Quoting from my reports showing activities of the credit union in Rowan County: October 2, 1920:—

Unloading lime at Cleveland bought coöperatively through the credit union. October 9th.—Farmers are rapidly preparing their ground for wheat and oats. To this end lime and fertilizers were unloaded for them this week. October 16th.—Still unloading fertilizers Farmers greatly disturbed by unsettled cotton market. October 23rd.—Sixth and last car of fertilizer unloaded for the Cleveland Credit Union members. The saving to the members on these goods has been very marked, ranging from sixty cents to one dollar on the bag of 200 lbs., according to grade. November 20th.—Farmers greatly worried about the sale of cotton. November 27th.—Many of the farmers are holding their cotton, the price falling below the cost of production, and borrowing from the credit union in order to be able to do so. February 26th.—Owing to the fact that fertilizer prices remained high and cotton prices low, the credit union's meetings are extremely well attended by farmers to hear what they can do about spring fertilizers and other problems. They are eager for advice. April 16th.—Spent this week with the farmers helping them with their fertilizer, four cars bought through the credit union having been unloaded at various points."

In 1920 the Credit Union bought:

Fertilizer, tons	161.8
Its value	\$7,100 32
Saving to members	\$1,345 44
Sugar bought	125 lbs.
Savings	\$6 03
Lime, tons bought...	120
Value	\$648 80
Saving	\$79 20
Total saving on these three items.	\$1,430.67

In another letter Mr. Patterson speaks of his credit union as follows:

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"We also have the power to borrow from banks when there is not enough money in the treasury to satisfy all prospective borrowers. In hard times, such as we have gone through since September of last year, farmers find it particularly difficult to borrow from banks. Indeed no farmers could borrow unless regular customers. The credit unions have come into the breach and tided them over. The spring was even harder than last fall, but we were able to help quite a number. The credit union affords the easiest short term loan service for farmers I know of and should be extended"

Writing September 11, 1920:

"The credit union has been all to us in Rowan County that has been claimed for it."

A Rural Credit Union in "Hard Times"

August 3, 1921, Mr. Patterson wrote again giving additional details of the experience of the credit union under the very difficult conditions then prevailing among small farmers in the South. I sometimes wonder what the North Carolina story would have been had conditions been normal. However, the experience has a new and greater significance because of the abnormality of conditions.

"The first credit union established among colored farmers in Rowan County, North Carolina, began business April 9, 1918, with 28 members. The movement at that time was entirely new and was regarded as an experiment pure and simple. Financial conditions at that time were in fair shape so that the first union grew very rapidly and laid the foundation for the other three that began business in 1919. The decline in cotton and other produce came with such

suddenness in the fall of 1920 that the unions were hard pressed to tide some of our farmers over, indeed to keep them from going under entirely. To illustrate, Mr. A had bought a farm which was paid for, but there was no house on it. He decided to build and did so and would have come through with flying colors, but cotton dropped—from forty cents to twelve cents—far below the cost of production. It would have taken four bales to obtain what one had been bringing. This left Mr. A in a very bad condition. The credit union came to his rescue and lent him the money to tide him over a very bad place.

"Because farm values were high and, for the time money had been plentiful, some farmers had made arrangements to add a few acres to their small holdings. Mr. R was anxious to add five acres adjoining his farm which would give him an undisputed right to the highway. It was viewed, at the time, as a good proposition. Cotton dropped and Mr. R was in a bad way to meet his fall payments. The credit union came to his rescue and prevented him from losing what he had already put in.

"Of course these are exceptional cases due to exceptional conditions. The real mission of the credit unions in Rowan County has been to aid farmers in purchasing fertilizers, coal, machinery, etc. In the past two years the credit unions have bought over twenty thousand dollars' worth of fertilizers and lime for its members and aided them in many other ways."

Writing again later:

"Now as regards the hard times and credit unions I have this to say. We were hit hard. Farmers have had no money to add to their holdings, but those we have had to carry over are gradually covering their obligations. For a time everything was at a sort of standstill but the shock of last fall's disaster is forgotten and as business becomes normal,

I feel that the credit unions of North Carolina will take on new life and render great service to that part of the citizenship of the state that needs the help so much."

Valdese

Valdese Credit Union differs somewhat from the others as the membership includes some mill workers. It is the largest of the North Carolina credit unions. A pen picture of it is contained in a letter from its most efficient secretary-treasurer, Mr. A. Grill:

"Our credit union has made tolerably good towards helping the laborers and the farmers and is doing its bit for the manufacturer as well. Valdese is a village which has been lately incorporated. Farmers are given first consideration. Our loans are made to all members applying on good security at six per cent interest for six months or a year. For example, we have sight drafts sent us for several carloads of lime. I recall also loans to help members buy tractors, horses and several to help them build houses, etc.

"Interest is charged only for the period the money is actually used. Besides the farmers we have helped the laboring people. In Valdese we have a good-sized cotton mill, a few hosiery mills and an embroidery mill, and we receive deposits from the employees. A few months ago the stockholders of the cotton mill decided to sell \$50,000 worth of stock to mill employees. As our members had a little money saved up, they could afford to take advantage of that offer. Having withdrawn their money for that purpose, they started saving again with doubled zeal.

"Many of the loans are made to business enterprises. Besides keeping the money at home it gives the people greater confidence. Summed up—I believe that a credit union, located in a district particularly where there is no bank around for many miles, is extremely useful."

It is interesting to note that the Valdese experience raises the question as to whether or not the North Carolina law can be applied successfully to other than exclusively rural groups.

When Supervision Fell Down

At this point it may be well to submit a bit of evidence which explains something of the difficulties which the credit unions encountered during the period of stress which were an additional handicap to the prevailing depression in the normal market for the products of credit union members. April 18, 1921, Mr. J. M. Henley, then Specialist in Credit Unions, wrote:

"We have had no recent compilation of reports of credit unions. On account of the shortage of funds in the department the printing was discontinued, and I have been engaged mostly in warehouse work. I trust that we will be able to renew our credit union work in the near future."

Writing four months later, Mr. Gorrell Shumaker of the State Department of Agriculture notes that Mr. Henley had resigned and that a new man would take charge in September, and on October 29th Mr. Shumaker wrote that Mr. Fred A. Yoder had undertaken the work. In his letter of August 12th, Mr. Shumaker says:

"A shortage of state funds has made it necessary for us to discontinue the publication of monthly statements. Although credit unions are not doing a thriving business at present, none of them have been obliged to liquidate and two new ones are in process of organization."

It will be recalled that Mr. Yoder took steps at once to supply the supervision and examination which was contemplated in the law but had been discontinued and that, despite his considerable achievements in getting the credit union situation in hand, it has been of necessity a part-time job with him. All of this has a bearing on the present status of the North Carolina development. Farmers are not normally good business men, neither are they natural bookkeepers. If we can picture credit unions of small farmers—some of them made up of white men and others of negroes—caught in a period of acute depression—cotton growers, for example, stunned by a drop in price almost overnight from forty-four cents to twelve,—and left without supervision and with but slight direction when supervision and direction was, of all times, most needed—then it is not difficult to understand that some of them failed to survive the ordeal and that others of them came through but with reduced resources.

Possibly the reader now has the picture of the rural credit union both under good and bad conditions.

The question remains as to the need of the type of service which we have found small rural credit unions in actual process of rendering.

John Sprunt Hill—on Rural Credit Union Necessity and Service

Probably the greatest living authority on this subject is John Sprunt Hill, who as a result of careful and thorough investigations abroad, may be said to have “brought Raiffeisen to North Carolina.” In 1917, speaking before the North Carolina Conference for

Social Service, Mr. Hill described this condition as follows:

"Crop lien credit costing the farmer 50 per cent or coöperative credit costing the tenant farmer 6 per cent is the greatest single issue before the people of North Carolina today. Crop liens invite reckless buying by tenants and put a premium on dishonesty. It frequently converts the supply-merchant capable of rendering gr̄eat service to the community into a financial 'wild cat' and helps destroy his community. The small farmer of North Carolina who is bound down to financial serfdom of 50 per cent credit is whipped before he starts."

Mr. Hill Qualifies as an Expert Witness

Of Mr. Hill's qualifications to give expert testimony in the matter, Mr. S. R. Winters speaks in an article published in the April, 1919, issue of the *National Magazine*, entitled "The Father of Rural Credits in North Carolina."

"He is an enthusiastic disciple of the principles of co-operation. Private interests have seemingly been submerged in the activities of Mr. Hill in his constructive vision for better farming as an ultimate achievement of co-operative credit to the farmer. He volunteered to represent his state as a member of the American Commission that toured the European countries in the spring of 1913 to examine the systems of cooperative finance, coöperative production and coöperative marketing that have so completely revolutionized agricultural conditions abroad. The Commission was composed of one hundred representative farmers, business men and bankers (Mr. Hill is a Banker



(Courtesy of "Collier's")

EXTERIOR—LOWE'S GROVE RURAL CREDIT UNION, LOWE'S
GROVE—NORTH CAROLINA



(Courtesy "Southern Agriculturist")

INTERIOR LOWE'S GROVE CREDIT UNION

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from Durham), from thirty-six states of the American union and from six Provinces of Canada.

"Mr. Hill was, by unanimous selection, made chairman of the Committee on Rural Credits. Months of tireless research, exacting tasks of assembling detailed information on credit societies and a zealous care for much first-hand information, marked his tour and studies in foreign countries. Intensive observation of credit societies in Europe added zest to the ambition of Mr. Hill to plant a similar enterprise in this country.

"He framed his observations in the shape of a public address and transmitted it to the State Convention of Farmers at Raleigh, North Carolina, in August, 1913. Another address before the State Convention of Farmers in August, 1915, barely antedated the enactment of legislation creating the machinery for the operation of credit societies.

"The North Carolina credit union act was drafted by Mr. Hill and provided a workable plan for bringing the virtues of short-term credit at low rates of interest to the doors of small farmers in North Carolina."

Mr. Hill's Testimony

Having qualified Mr. Hill as an expert his testimony becomes not only interesting but extremely important. The following are further extracts from his address at the North Carolina Social Conference.

"To-day the cry for more bread and cheaper bread and the cry for economic justice for the tenant farmer, is heard throughout the length and breadth of the New World . . . Lowe's Grove Credit Union, Durham County, extends to you a cordial invitation to come to its little home nestling in the shadow of Lowe's Grove Farm School and there 'find Raiffeisen.' It is a typical Raiffeisen Union, slightly changed so as to fit Tar Heel conditions.

"Of course, we need not expect to find that it has yet fulfilled its entire purpose or yet reached a proper state of efficiency. It takes time and patience and energy and inspiration from high places, to weld a body of small farmers into a harmonious business organization. It takes time to root out destructive greed and root in constructive faith. The average small farmer does not become a business man in a day. You cannot industrialize agriculture in North Carolina in a single season. Mr. William R. Camp, Superintendent of Credit Unions in North Carolina, said on December 27th last 'With only twenty-four members and twenty-four depositors and in a section where the soil is not by any means the easiest to get returns from, the deposits of this credit union now amount to \$1245 06 and its total resources to \$2341.46.'"

Mr. Hill then goes into some detail as regards the early history of this credit union and of the initial credit unions in the state and then goes on to say:

"It is organized for the purpose of bringing together all of the savings of a neighborhood . . . money that has been hid in bureau drawers and stockings and cracks of houses comes out of hiding and commences to draw interest and to work for the benefit of the community. It is a mutual aid association that seeks to take care of the reasonable demands of the people of a neighborhood when in sickness or distress and for the purpose of purchasing fertilizer and farm supplies.

Credit Union Crop Lien vs. Supply Merchant Crop Lien

"In case the tenant farmer has no property at all except his usual mule and cow, in addition to personal endorsement he is further required to secure his note by endorsement of his landlord, or he is required to give a lien on his

crop to the Credit Union. This crop lien to his own Credit Union bears interest at the rate of six per cent and furnishes him money to buy his supplies on a cash basis at the lowest possible wholesale prices, whereas the crop lien he has been accustomed to give to the supply merchant has been costing him for his credit all the way from 40 to 60 per cent by reason of the fact that he is compelled to pay 25 to 30 per cent more for his supplies on credit than for cash."

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The Normal Result of Rural Credit Union Extension

"Establish a credit union," continues Mr. Hill, "in the shadow of every farm school in North Carolina, and you have taken the first step towards stamping out usury, stimulating thrift, reviving agriculture and securing to the small farmer a fair share of the profits of his labors."

The Results of a Federal Investigation

Mr. Hill quotes as follows from a Federal investigation of farm conditions in North Carolina:

"Our investigation proved with the greatest clearness that the tenant farmers in North Carolina have practically no power to borrow money at any of the banks of the present type. Any movement that can persuade the average small farmer of North Carolina that his real prosperity is tied up closely with that of his neighbor, that they should coöperate together in the use of credit, would bring the greatest possible blessing, not only to the farmers but to every one who lives in North Carolina."

The Primary Value of the Credit Union

The credit union, in Mr. Hill's opinion, is not primarily valuable as a savings society or as a mutual aid society.

"Greatest of all a credit union is a democratic union of the people in a neighborhood for the purpose of upbuilding that neighborhood financially, socially and morally. It furnishes the financial machinery whereby the people of a neighborhood can put their farming operations on a cash basis, and buy their fertilizers and supplies at the lowest cash, wholesale prices. It furnishes also the financial machinery whereby the people of a neighborhood can market their products in a proper manner and dispose of all their products that are standardized at a fair price and under the control of the farmers themselves. It seeks to develop individual character and individual responsibility. It rests upon the Christian foundation of brotherly love. Witness after witness said to us in Europe, 'Establish a Raiffeisen society in a village and before long the whole character of the people has changed.' It aims to make each individual member an owner of property. It destroys usury. It allays social unrest. Coöperation is an antidote for socialism."

Mr. Hill's Conclusions

In conclusion, Mr. Hill points out that the credit union may "lift the oppression of the usurer from the neck of our country people of small means"; that it may be the first step in "the abolition of the crop lien system" and in "devising ways and means for giving the small farmer a fair share of the profits of his labors." It may "be the first step in bringing back to the hearts of our tenant farmers some of the comforts and pleasures of life" and "in establishing homes for the 150,000 tenant farmers in North Carolina." It may also "be the first step in bringing back into a state of cultivation some of the 14,000,000 acres of abandoned farm lands in North Carolina." "Let us gird

up our loins and join in the fight for a triumphant agriculture in North Carolina. Let us not turn our backs upon the beautiful lands that our fathers gave us, but rather let us hold out a helping hand to the struggling thousands of small farmers in North Carolina in order that they may not be forced to follow the crowds to the great industrial centers that are arising in our midst." Thus in 1917 the greatest authority on the subject in America urged his people in North Carolina to credit union activity.

A Summary of Mr. Hill's Estimate of Credit Union Value

Analyzed, Mr. Hill pointed out simply that the need of the credit union was based on the prevailing crop lien system resulting in extortionate interest charges to small farmers and to the fact that, if small farmers could buy at wholesale for cash there would be the resulting saving that would make the business of farming attractive. He felt that farm tenants (150,000 of them in a single state) had problems the credit union could solve and that, with the credit union and a developing sense of coöperation, would come a development of rural life on social and economic lines which would make life worth living. This forms the basis of necessity of credit union service. Where such conditions exist the credit union is needed. The need does not, however, insure such credit union organization as will supply the need. There must be organization, properly encouraged and directed. It is of no avail to organize a credit union within a group incapable of managing it. So that we must first locate the need and

then insure that the right sort of management will be forthcoming. Then a credit union may be safely inaugurated.

The Problem Is Not Confined to North Carolina

How general is this need? Obviously it is not confined to North Carolina. I have found it in every state where I have been able to make even a modest investigation. This includes thus far Georgia, Louisiana, South Carolina, Virginia, Kentucky, and Maryland in the Southern group. My correspondence also points to similar need in the middle West and, in fact, wherever there are tenant farmers.

Farm tenancy is so important that it will be referred to at length in later chapters. Fortunately we have a careful analysis of the difference between time and cash prices of staple commodities in the South, which warrants the assumption that everywhere the small farmer who is obliged to buy in small quantities and get credit, pays at a usurious rate for the credit he receives in the difference between time and cash prices. Clarence Poe, distinguished throughout the South for splendid service rendered to farms and farming, made the following analysis and it was printed in the *Progressive Farmer* in November, 1915. It is of such importance that I have reproduced it here exactly as it appeared, as it is the most compelling sort of evidence of the general prevalence in the South of one condition which calls for credit union service.

"In *The Progressive Farmer* of August 28 we inserted a blank asking readers to report to us the difference between cash prices and 'time prices' in their localities on eight

"The following table gives in detail the *averages* of all our reports:

NORTH CAROLINA

<i>Article</i>	<i>Average Cash Price</i>	<i>Average Time Price</i>	<i>Increase Per Cent</i>	<i>Inter- est Rate</i>
Corn, bushel	\$0 9675	\$1 1602	19 92	59 76
Flour, sack	2 4460	2 9159	19 21	57 63
Hay, ton	22 3244	26 5022	18 71	56 13
Meal, bushel	1 0371	1 2463	20 17	60 51
Oats, bushel	6525	8045	23 29	69 87
Lard, pound . . . . .	.1194	.1486	24 46	73 38
Sugar, pound . . . . .	.0712	.0840	17 98	53 94
Molasses, gallon . . . . .	.4647	.5731	23.33	69 99
Average interest rate				62 65

SOUTH CAROLINA

<i>Article</i>	<i>Average Cash Price</i>	<i>Average Time Price</i>	<i>Increase Per Cent</i>	<i>Inter- est Rate</i>
Corn, bushel	\$1 02	\$1 235	21 08	63.24
Flour, sack	1 97	2 25	14 21	42 63
Hay, ton	20 50	25 50	24 39	73 17
Meal, bushel	1 0722	1 2944	20 72	62 16
Oats, bushel	6436	.7936	23 31	69 93
Lard, pound	1037	1343	29 51	88 53
Sugar, pound . . . . .	.0672	.0833	23 96	71.88
Molasses, gallon . . . . .	.4364	.6029	38.15	114 45
Average interest rate				73.25

ALABAMA

<i>Article</i>	<i>Average Cash Price</i>	<i>Average Time Price</i>	<i>Increase Per Cent</i>	<i>Inter- est Rate</i>
Corn, bushel	\$0 9026	\$1 12	24 09	72.27
Flour, sack	1 0158	1 2316	21.24	63 72
Hay, ton	16 10	20 54	27 58	82 74
Meal, bushel	9847	1 1972	21.58	64 74
Oats, bushel	6517	8242	26 47	79 41
Lard, pound	1126	.145	28 77	86 31
Sugar, pound0697	.0881	26 40	79 20
Molasses, gallon4667	.6152	31 82	95 46
Average interest rate				77.98

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MISSISSIPPI

<i>Article</i>	<i>Average Cash Price</i>	<i>Average Time Price</i>	<i>Increase Per Cent</i>	<i>Inter- est Rate</i>
Corn, bushel.	\$0 9205	\$1 0810	17.44	52.32
Flour, sack	9068	1 0932	20 56	61 68
Hay, ton.	13 8182	17 50	26.24	79.92
Meal, bushel . . . . .	.9095	1 0857	19 37	58 11
Oats, bushel. . . . .	.5913	7320	23 79	71 37
Lard, pound . . . . .	.1150	.1482	28 28	84.84
Sugar, pound . . . . .	.066	.081	22 73	68 19
Molasses, gallon . . . . .	.4575	.5640	23.28	69.84
Average interest rate.....				68.28

TENNESSEE

<i>Article</i>	<i>Average Cash Price</i>	<i>Average Time Price</i>	<i>Increase Per Cent</i>	<i>Inter- est Rate</i>
Corn, bushel	\$1 0132	\$1.2158	20 00	60 00
Flour, sack	1 275	1 4722	15 47	46 41
Hay, ton.	16 7647	19.8971	18 68	56.04
Meal, bushel . . . . .	.9667	1 1472	18.67	56 01
Oats, bushel . . . . .	.5759	.7441	29.20	87 60
Lard, pound . . . . .	.115	.1471	27.91	83 73
Sugar, pound . . . . .	.0806	.0953	18.24	54 72
Molasses, gallon . . . . .	.5367	.6740	25.58	76 74
Average interest rate				65 16

GEORGIA

<i>Article</i>	<i>Average Cash Price</i>	<i>Average Time Price</i>	<i>Increase Per Cent</i>	<i>Inter- est Rate</i>
Corn, bushel	\$0 9531	\$1 16	21.71	65 13
Flour, sack	1 6214	1 9214	18 50	55.50
Hay, ton	18 65	22 12	18 60	55.80
Meal, bushel	1 0231	1 2162	18.87	56 61
Oats, bushel. . . . .	.5886	.7636	29 73	89.19
Lard, pound . . . . .	.1131	.1431	26 53	79.59
Sugar, pound . . . . .	.0658	.0817	24 16	72.48
Molasses, gallon . . . . .	.658	.5308	24.89	74.67
Average interest rate				68.62

VIRGINIA

<i>Article</i>	<i>Average Cash Price</i>	<i>Average Time Price</i>	<i>Increase Per Cent</i>	<i>Inter- est Rate</i>
Corn, bushel....	\$0 925	\$1.1125	20.27	60.81
Flour, sack ..	975	1 175	20 51	61 53
Hay, ton ..	18 00	21.00	16 67	50 01
Meal, bushel. . . .	1 0333	1 1667	12 91	38 73
Oats, bushel	575	6875	19 57	58 72
Lard, pound	11	1267	15.18	45.54
Sugar, pound . . . .	.0633	0733	15 80	47 40
Molasses, gallon ..	.50	625	25.00	75.00
Average interest rate				54.72

TEXAS

<i>Article</i>	<i>Average Cash Price</i>	<i>Average Time Price</i>	<i>Increase Per Cent</i>	<i>Inter- est Rate</i>
Corn, bushel ...	\$0 7167	\$0 85	32 55	97 65
Flour, sack. . . .	1 5667	1 90	21 27	63 81
Meal, bushel	1 00	1 10	10 00	30 00
Oats, bushel. . . .	60	775	29 17	87 51
Lard, pound . . . .	.1125	.15	33 33	99 99
Sugar, pound	06	075	25 00	75.00
Molasses, gallon ..	50	70	40 00	120.00
Average interest rate ..				81.99

ARKANSAS

<i>Article</i>	<i>Average Cash Price</i>	<i>Average Time Price</i>	<i>Increase Per Cent</i>	<i>Inter- est Rate</i>
Corn, bushel.....	\$0 8636	\$1 0982	27.17	81.51
Flour, sack ...	1 30	1 7045	31 12	93 36
Hay, ton... ..	13 8889	17.6778	31 12	81 84
Meal, bushel	9389	1.2278	30 77	92 31
Oats, bushel ...	5538	7413	33 86	101 58
Lard, pound ...	1136	1445	27 20	81 60
Sugar, pound	075	.101	34 67	104 01
Molasses, gallon	48	62	29 17	87.51
Average interest rate..				90.46

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LOUISIANA

<i>Article</i>	<i>Average Cash Price</i>	<i>Average Time Price</i>	<i>Increase Per Cent</i>	<i>Inter- est Rate</i>
Corn, bushel.....	\$1 00	\$1.2083	20.83	62 49
Flour, sack ..	1 40	1 6417	17 26	51 78
Hay, ton.....	16 25	18 75	15.38	46.14
Meal, bushel . .	1.19	1 38	15 97	47 91
Oats, bushel. . .	6375	.7625	19 61	58.83
Lard, pound . . .	1017	.125	22.91	68 73
Sugar, pound . . .	07	0867	23.86	71.58
Molasses, gallon.....	50	.6333	26 66	79.98
Average interest rate				60 93

Having in mind the date at which these statistics were gathered and the tables compiled, and knowing that Mr. Poe has kept in close touch with rural conditions in the South I wrote him as regards the present accuracy of the tabulations. Mr. Poe writes July 28, 1922:

"I think that the 1915 figures on time prices indicate about the same general situation that exists to-day in that respect."

In the same letter Mr. Poe, whose office is in Raleigh, North Carolina, and who has been in close touch with the credit union situation in the state from the time of the enactment of the law, writes me as follows, as regards the working out of the law to date:

"So far as I have been able to observe our North Carolina credit union law is about as satisfactory as such a law could be expected to be. If we had one man giving his whole time to vigorous propaganda and supervision in this one field, I think we should progress a great deal faster."

Mr. Poe advances the excellent idea that it would be of mutual advantage if the credit union could be

yoked up with the rapidly developing coöperative market organizations. It becomes increasingly self-evident to any student of the subject that there has not yet been worked out the best practical plan of credit union promotion and supervision and increasingly obvious that promotion and supervision are fundamentally important.

**The United States Department of Agriculture and
Circular 197**

If further authoritative evidence of the need of rural credit union organization is necessary it is found in United States Department of Agriculture Circular 197 which has already been referred to. It was issued less than a year ago.

"The agencies for short time rural credit are still inadequate and the cost of such credit excessive. This lack of adequate facilities for rural personal credit is found to exist not only in times of temporary stringency, but also in so-called normal times; for there are large numbers of farmers, especially tenants, who cannot obtain sufficient credit at moderate rates of interest to enable them to produce crops or other farm products with reasonable efficiency. The difficulty, in a certain sense at least, lies with the borrower rather than with the banks. The borrower is the victim of local conditions and customs which it is not easy for him to materially change . . . Unable to secure the loan at the bank, the farmer goes to the local merchant. If he succeeds in securing the needed loan from this source, the terms are likely to involve an 8 or 10 per cent interest charge on the entire loan, even though only a part of the amount of the loan is advanced immediately. In addition he must pay the cost of certain papers, including a crop

lien or a chattel mortgage, or both. Furthermore, he is likely to be charged a price ten per cent" (Mr. Poe's figures indicate that this is unduly conservative) "above the cash price on equipment or supplies purchased with the proceeds of the loan, because he is after all considered a credit customer." (It should be remembered that when this same farmer buys through a credit union by pooling his joint credit with fellow-farmers he gets a further and substantial saving in the carload lot price)

To continue from the Department Circular:

"The farmer described in the above illustration, by energy and strength of character, and without coöperation from his neighbors may be able to rise above the condition in which he finds himself. However, through active coöperation with his neighbors he will find it not only easier to improve his own credit status but also he will assist and encourage others to improve their financial and economic situation. One of the simplest and most practical forms of coöperation for improving the personal credit of those with limited security and without established banking connections is the so-called credit union."

The Results of Present Experimentation

The Circular concludes:

"Coöperative credit associations in the United States have as yet advanced but little beyond the experimental stage. These experiments, if such they be considered, appear, however, to have quite fully demonstrated the possibilities of this form of self-help. This is true in the case of farmers in need of short-time credit, and lacking in proper security or banking connections. The rural associations have enabled their members to secure loans on favorable terms for the purchase of necessary supplies and equipment, when in

the absence of such associations expensive merchant credit would have been the only alternative. Furthermore, these organizations have stimulated saving among their members by reason of the relatively liberal rate paid on funds deposited with them. The benefits of credit unions are not limited, however, to immediate economic results. Such associations are making better business men of their members. They bring a better understanding of sound business methods and practices. The officers and committeemen, particularly, and all the members to some extent, are led to look upon credit transactions from the creditor's standpoint as well as from the standpoint of the borrower, and will unconsciously acquire an added appreciation of fairness, frankness, and promptness in all business transactions."

Credit Unions and Banks

The Circular has, incidentally, this interesting view of the relationship between the credit unions and banks:

"Coöperative credit associations, and particularly those in rural districts in need of better credit facilities, are agencies supplementary to the commercial banks, rather than competitors. Many farsighted and constructive rural bankers fully recognize this fact, and have not only cooperated with unions that have been formed, but have taken the initiative in the organization of unions in their near-by territory. These bankers recognize that it is more advantageous to lend a substantial amount at a relatively low rate of interest to an organized group of farmers, where the risk has been largely eliminated, than to lend individual farmers small sums at higher rates where there may be a considerable element of risk. Furthermore, these associations gather up the small savings of persons who were

not bank customers and make local banks their depositories whenever funds in excess of the demand for loans happen to be on hand. Finally, progressive bankers fully realize that their own business can attain marked growth only with the increase in the general prosperity of the community in which they operate, and that to promote prosperity most effectively it is necessary to have the money and credit which they control reach those members of the community who are in greatest need of credit and whose productive powers will be most enhanced by the use of additional capital.

Where Rural Credit Unions Are Particularly Needed

"Rural credit associations, or credit unions, are particularly needed where there are many farmers of small holdings and renters of limited capital. They are most likely to succeed where the need for better credit facilities is strongly felt, and where the members of the community already have many interests in common. A certain amount of local leadership is essential to success, and there must be a self-sacrificing spirit on the part of the leaders which will prompt them for a time at least to perform services for the credit union without other compensation than the direct benefit they themselves derive from membership in the organization, and the pleasure of assisting others in attaining a better economic status."

One further witness is offered. It comes from another well-qualified expert. Mr. William R. Camp was the first Superintendent of Credit Unions in North Carolina and had most to do with the first very important organizations in accordance with its provisions. The following are extracts from Extension Circular Number 13 of the Agricultural Extension Service issued by Mr. Camp in August, 1916:

How Shall the Farmer Be Relieved from High Store Credit?

"The author once asked one of the leading supply merchants of the state what could be done to relieve the farmers of the high cost of supply store credit. He very wisely advised that farmers should spend less recklessly for things they could get along without and save their money to pay cash for necessary supplies.

"The cooperative banks of Canada have succeeded among their members in doing away with the practice of buying on credit. M. Desjardins, the founder of the first coöperative bank in America, says:

" 'A man who does not follow the wise course of providing in advance for his expenditures often finds himself short of ready money, foolishly adopts a credit system and buys more than he really needs or more than his means justify. But the day comes when he must pay, and then the amount due seems very high, and his uneasiness is great. It must also be observed that money is saved by buying for cash, for much more care is exercised when what is bought must be paid for on the spot. Under such circumstances buying is strictly limited to the amount of money on hand.'

Present High Cost of Credit

"According to the reports of bankers in fifty-four cotton-producing counties of North Carolina, farmers are reported to have received an advance of \$29,150,742 from merchants in the form of supplies for growing one cotton crop, or an average of fifty-eight per cent of its total value. Supplies bought on time are reported to have cost on an average 19.2 per cent more than those purchased for cash. If these accounts run on an average for six months, farmers have to pay at the rate of 19.2 per cent for six months, or 38.4

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per cent per year for the credit with which they obtain their supplies. The total cost of this supply store credit at this rate for producing the cotton crop alone would be \$5,553,213.35. At the legal rate of interest of six per cent, this credit would have cost \$874,522 26. Cotton farmers would have saved \$4,678,691 09 if agriculture had as good a system of credit as other lines of business in this state. No business can prosper and buy credit at such prices. A business which begins on this basis is beat at the start. If this amount, in round numbers \$5,000,000, were saved, it would be an income of five per cent on a new land value of \$100,000,000, which would be added to the value of the land of the cotton counties of North Carolina alone.

Limited Credit Resources of Unorganized Farmers

"Unorganized farmers generally have to depend upon one agency for credit. On the other hand, a corporation doing business on a large scale is able to borrow from any one of a number of financial institutions. The same corporation may be able to secure credit in Kansas City, Chicago or New York—wherever, in fact, the interest rates are cheapest.

"The local character of the individual farmer's business and security so restricts his borrowing power that he is not able to borrow at all, or, he has to pay such a high rate that it does not pay him to borrow the use of capital; or, what is still worse, he may so run into debt for supplies for growing a crop that he is tied up in its sale. He is not free to organize an efficient system in his own behalf for the economical distribution of the products he produces. With profits eaten up by the high cost of credit, a farmer has no encouragement to invest new capital in the improvement of land. As a result, the value of land has remained low and its improvement slow in the South.

Gathering Idle Cash for Developing Country Enterprise

"In most farming communities of North Carolina there are funds hid away which are doing no one any good. If all of the money of the country is brought together in Credit Unions it can be put to work earning profit for the users and developing business in the country in the same way that the city man's funds do for city business. The town people of North Carolina do a business of \$12,000,000 through their building and loan associations. These co-operative banking institutions have enabled many a city man to build a home for himself which he could not otherwise have done. The North Carolina Legislature has put it within the power of farmers to do as much for themselves as city men are achieving all over the United States. A Credit Union, like a savings bank, will help people to save. Deposits may be received from both members and non-members. Four per cent interest is paid for all money received on deposit.

Normal Results to Be Expected from Credit Union Extension

"Three results of far-reaching importance should follow from a general introduction of Credit Unions. 1. Farmers should be able to buy all farm supplies in large quantities, as manufacturers do, and get the benefit of what is known as a quantity price—that is, a lower price for large purchases than for small ones. To illustrate: one Credit Union reports saving \$667.73 in buying 114 tons of fertilizer for its members over what it would have had to pay had the members bought on time in small separate lots. 2. If the farmers can get credit as cheap as the middleman, he can afford to hold and dispose of his own products throughout the year and therefore will be able to secure a uniform

distribution and prevent the price depression which large early sales have forced upon him. 3. The habit of working together will take the place of each acting for and by himself. The individual farmer can only become powerful through a powerful organization which is pledged to work for his interests. The team work of a whole community working in coöperation will help each farmer to accomplish what he would be helpless to gain by himself. When every one seems to be equipping himself to do the other fellow, suspicion develops as a matter of self-protection. Only through working together for a common end can the members of a community become confident, trustful, kindly and hopeful, all for each and each for all. These, after all, are among the virtues most worth while."

Canadian Rural Credit Unions

In order that we may determine whether or not the rural credit union plan would work among small farmers under somewhat dissimilar conditions it may be well, briefly, to consider the Canadian experience. In his book entitled, "The Coöperative Peoples Bank," published in 1914 by the Russell Sage Foundation, Desjardins says:

"It is of the highest importance that farmers should be organized as are other classes of the community and the first step towards this end is an institution that will afford these tillers of the soil the capital they need to improve their industry. Obviously wisdom is necessary, but audacity, coupled with thoughtfulness and prudence, is also the key to progress. That our rural population is endowed with intelligence is apparent by the number of coöperative banks which are now working with great success among honest and industrious farmers."

"St. Ulric is a parish having a population of 1600, all farmers. A credit union (La Caisse Populaire) was organized on September 26, 1909, and in thirty-seven months it had accumulated assets of \$24,460.38." According to the most recent Statistical Year Book published by the Secretary of the Province this credit union had increased in assets to a total of \$69,475.55, having outstanding loans at the time the statistics were prepared of \$60,890.24, which would seem to indicate that this credit union had completely solved the short term credit problem of its members with a substantial balance otherwise invested than in loans to members.

Quoting M. Desjardins again,

"Armagh, in the County of Bellechasse, has a population of about 1400, all farmers. The credit union was organized in 1910 and in thirty-four months had assets of \$27,138.23. Maria is a small parish with a population of about 800. The majority are farmers but a good number of families are still living on what was the only industry of the place in years gone by—fisheries. The credit union was organized in 1908 and in four years had assets of \$20,625.91. It must be stated here that the population is poor and it is a wonder to every one who knows the locality that such splendid results could have been achieved in so short a period."

Referring again to the Statistical Year Book we note a substantial development to total assets of \$88,048.20 with outstanding loans of \$56,550.63, the development again indicating how this credit union in a small village where "the population is poor" is apparently able to meet all the credit problems that arise with substantial

balances. Concerning St. Jean Des Piles, M. Desjardins writes:

"This village has a population of 800, part of whom are laboring men and the rest very small farmers and is situated in a rather poor agricultural district at the foot of the Laurentian Mountains in the district of Three Rivers. Its credit union was organized in 1910 and in twenty-five months had accumulated assets of \$11,972.60."

By 1920 it had increased its assets to \$39,119.99 and had outstanding loans of \$23,984.28. Again quoting:

"St. Onesime is a very small parish inhabited mostly by farmers and settlers who have to work in the shanties of the lumbermen part of the year to supplement their poor agricultural earnings. When we were invited to organize a credit union there the priest asked us if his parish was not too small for such a venture. We answered no and organized a credit union in 1912. In seven months the assets were \$2913.80."

By 1920 this credit union had grown to assets of \$42,690.55. These are typical rural credit unions organized by Desjardins.

The sort of loans they make is indicated by the following quoted from the Statistical Year Book, 1921 edition: "These banks meet a real need among the urban and rural population." The type of loans made most frequently include money "for the purchase of farming implements, live stock, seed-grain, provisions by wholesale, fishing gear, tools or implements for working at trades, etc.," indicating much the same variety of purpose which we have already noted in the North Carolina credit union loans. It is interest-

ing to note that of a total of 15,297 loans by credit unions in the Province of Quebec analyzed in the Year Book better than 12,000 of them were in amounts less than \$200. Loans varied in amount from 156 loans less than a dollar to 678 loans of more than a thousand dollars.

M. Desjardins concludes his book:

"However important it may be to prevent the farmer and the working man from falling into the clutches of the usurers, it is of even higher importance to educate and enlighten these same farmers and workingmen so that they may be in a position to protect themselves; to teach them to manage their own business so that they may become thrifty and more valuable members of the community."

Conclusions

Coupling the material contained in this chapter with the North Carolina statistical data contained in the third chapter, we have, possibly, facts sufficient to warrant certain conclusions relative to the possible value of rural credit union development in the United States.

We may safely conclude certain "will nots," certain "wills" and a few "mays."

First—the "will nots."

Obviously the rural credit union, viewed sanely, will not bring the millennium prematurely to small farmers. It is not "a kind of financial panacea for the rural communities."

Nor will a credit union work well unless managed properly. Before a charter is granted it should be determined as nearly as possible that the management

will be adequate. If there is need of the credit union and management could be developed with some instruction, the instruction should be forthcoming. It is a highly desirable and proper function of the state to do the instructing. In Massachusetts the Credit Union League helps every new credit union with instructions in methods whenever there is need.

The rural credit union system will not work well without adequate supervision by some state department. Credit unions are miniature banks and should report to some supervising authority at least annually, preferably semi-annually, and should be examined at least once a year.

A rural credit union, organized within a group the members of which have no credit problem, obviously fills no need and organizations of this type should not be encouraged.

Rural credit unions are business organizations. They are not charitable institutions nor are they quasi-charitable in nature. Loans must be made in a businesslike way. Credit must be based on the probability of repayment. Accounts must be kept accurately. Most of the failure of coöperative organizations in general has been due to the mistaken idea on the part of the members that there is something about the word "coöperation" which works magic. There isn't. A co-operative store must be operated with as great care and skill as a store run by a successful business man for private profit. When coöperators learn this lesson there will be great progress in the coöperative movement.

The great problem of credit union development, both urban and rural, is to create directing force. If pos-

sible, a rural credit union law should contain the North Carolina provisions for propaganda and organization work. The next essential is that the state make sufficient money available to insure a literal interpretation of this part of the law. Failing such provision in the law State Departments of Agriculture should be brought to assume the propaganda and organization work as a part of their general job of promoting agriculture in the state. Both the United States Department of Agriculture and State Departments have long been effectively concerned with the education of farmers in right methods. Credit facilities are an essential part of the farmer's equipment, just as essential as his mule, if he uses mules, or his tractor if he uses tractors. Just as farmers need education in the matter of crop rotation—how to fight various sorts of pests—and in many other things which have to do with effective farming—they need to know how to get credit when they haven't it and how to use credit after they get it. When this is fully realized the development of coöperative credit among small farmers will be greatly accelerated.

I have always admired the faith of the individual who believes that there is a Fountain of Youth and that the only problem is to find it—but I haven't had equal admiration for his judgment. Those who turn to the North Carolina experience expecting to find farmers lifting themselves by their boot-straps by virtue of some magic power contained in a law, fail to appreciate that it isn't given to humans to perform miracles by legislation. Those who are interested in a profound and, in my judgment, successful experiment

in developing service through coöperation and self-help, will find their faith in the capacity of men to solve common problems through united effort and the application of good judgment and sound principles, rewarded and renewed by what has happened in North Carolina.

Second—the “wills.”

When there is need of credit facilities within a given group of farmers capable of saving a few thousand dollars and managing it properly, the credit union will work. It will create credit facilities at low rates of interest. It will substitute wholesale cash buying for retail credit buying with great resulting economies to the farmers in the group. Lowe's Grove proves this. The rural credit union in Europe has worked extremely well. In Canada there are rural credit unions organized among small farmers with no greater capacity to save than our small farmers, which have sufficient assets to care for all the credit problems of their members and are managed with great care and ability. The facts show such credit unions in very small villages.

There is a farm tenant problem in the United States which will be discussed later.

The small farmer who has to buy in small quantities and ask for credit, pays for it—in ten states at least and probably in many others—at rates varying from 52 to 90 per cent. There is a crop lien system at usurious rates of interest. Farmers who can pool their purchasing power can make great savings thereby. It will be recalled that the Lowe's Grove group bought coöperatively, in a few years, supplies and equipment totaling \$200,000 at a saving of approximately \$30,000.

The rural credit union has also great social value.

This then we may conclude—under the North Carolina law it is possible to organize a credit union which will make loans at reasonable rates of interest to farmers previously without credit facilities; that through such an organization farmers can buy in quantity coöperatively, thereby eliminating the small credit purchase with great resulting benefit to the farmer; that, under proper conditions of management and supervision, such a credit union can weather abnormal hard times, as witness the capacity of many North Carolina credit unions to survive the depression of the past two years; that teaching the farmers coöperative credit stimulates an interest in other forms of coöperation—promotes community spirit and makes the difference between successful farming, attractive to the farmer, and the weary drag of farming through interminable process of buying on credit, growing crops already mortgaged to the creditor, paying the loan with interest rates which take all the profits and then going through the grind again.

Involved in the whole business of a successful agriculture is the great problem of the trend to city migration—the increase in farm tenancy and allied problems, which unless solved in some sensible way, will increase the tendency to an unstabilized agriculture. There is enough evidence that the credit union can help.

Third—the “mays.”

The following is quoted from the Preliminary Report on Land and Agricultural Credit in Europe, rendered to President Taft in 1912. From the European experience may possibly be determined what may happen in

the United States when credit union service is brought to small farmers on anything approaching a general scale.

"Personal credit in agricultural Europe is obtained usually by means of the cooperative credit associations. These associations are in fact the only banks which the farmers will patronize for short-time loans in the nations where they abound in greatest numbers. With their aid poverty and usury has been banished, sterile fields have been made fertile, production has been increased, and agriculture and agricultural science raised to the highest point. Their educational influence is no less marked. They have taught the farmers the uses of credit as well as of cash, given them a commercial instinct and business knowledge, and stimulated them to associated action. They have encouraged thrift and saving, created a feeling of independence and self-reliance, and even elevated their moral tone.

"The picture can hardly be overdrawn. Every traveler who visits the places where these little associations exist speaks in glowing phrases of the prosperity and contentment that prevail. They are organized on such simple lines and their management requires only ordinary intelligence. Failures have rarely occurred. In France and other countries they hold a record of never having lost a cent. The working capital and number of members of individual associations are so small as to be insignificant, yet they do one-third of the banking business of Italy; while the combined amount of their operations in Germany equal that of the commercial banks. But these banks both in town and country are looked upon with favor in the financial world because they keep millions of dollars of petty sums in circulation which, except for them, would be idle and hoarded."

CHAPTER VI

THRIFT AND THE CREDIT UNION

This chapter is based on the theory that, in a democracy, universality of opportunity is the important thing and that, in order to make opportunity as universal as possible, certain characteristics must be developed in the people.

Thrift is such a characteristic. No one would openly and seriously dispute the assertion that the individual earner (whether he be wage worker, small farmer or what not) should have a margin between what he earns and what it costs him to live. A "living wage" will not do permanently in a democracy if it presupposes an even balance between earning capacity and living cost. It has recently been pointed out by the Secretary of Labor that the term "savings wage," meaning thereby such wage as will permit a margin between normal income and out-go, is more consistent with conditions in an ideal democracy.

The difference between the two may be based, in the individual case, on general economic conditions, in which event one objective of democracy clearly should be the creation of such economic conditions as will establish a "savings wage" standard.

In other cases the difference may be due to correctable waste—to a failure to appreciate how life should

be balanced—in which event the problem becomes social rather than economic and the individual needs the type of training, for example, now being freely given in some banks by budget experts, etc. When the failure is due to individual ignorance and improper training, the answer must be found in education. The rapid development of technical schools, of free evening schools, points the way—or rather one way. However uncertain other phases of the development of a democracy may be, there is no disagreement that the greatest single essential to a broadening opportunity is a developing public school system. There is no place for illiteracy in the ideal democracy.

If the difficulty—the inability to establish a margin—results from downright laziness, it is probably incurable. In this latter case the cure is certainly not to be found in the standardizing of all work by the working capacity of the least willing.

Whatever may be the cause of the failure of a margin, the objective—the creation of a margin—remains.

Nor should the margin be possible only by the practice of abnormally low standards of living. Life must not be a chore. A planet populated exclusively by misers would be a most uncomfortable and unsatisfactory place for a normal-minded man to live on. The individual who acquires wealth by abnegation and self-denial—by abstaining unnecessarily from everything which makes for normal, wholesome and legitimate pleasure—does not necessarily improve his value thereby to the body politic. The existence of a margin should presuppose the right to live a fairly com-

fortable and expanding life with a fair chance for happiness by participating in the social relationships which make for happiness. "I believe," writes Warren S. Stone, Grand Chief of the Brotherhood of Locomotive Engineers and one of the outstanding labor leaders in the United States, "that the stabilization of our country economically turns on making the individuals that compose its population more independent—more contented, and that this condition of affairs will come only when justice and the equities are realized." It will be recalled that Alphonse Desjardins, after many years of extraordinary service bringing credit facilities and promoting thrift among wage workers and small farmers, said, "Success for the young democracies of this continent depends on the prosperity and worth of life to the millions of workingmen who compose them."

If democracy means one thing more than any other, it means universality of opportunity to participate in those things which make for a happy and prosperous life. If we fail in that in the United States, democracy fails. But opportunity should not come as a gift—to be lightly regarded. It is something to be earned and the business of democracy is to see to it that the individual can, if he has the will to earn it, earn and secure for himself his individual right to opportunity. Democracy should insure a man a chance.

By the practice of thrift, as one cardinal virtue, the individual is most apt to develop not only the will but the ways and means whereby he can meet the opportunity which, in a democracy, should knock at least once in his lifetime.

Are We a Thrifty People?

The first problem before us, admitting the desirability of thrift as an individual and national characteristic, is to determine whether or not we are, as a matter of fact, a thrifty people. It is difficult to determine this with absolute accuracy. It is possible, however, to compare the United States with other countries and to make some analysis of conditions in this country which indicate statistically, so far as accurate statistics are available, how many of our people save money. It is impossible to estimate the so-called "stockings savings" of the people—the money hidden away in the trunk, in the attic or beneath the mattress. That the hoarded savings of the people constitute an appreciable total and involve a problem of national importance will be later discussed in detail.

Neither should the comparisons in this chapter be interpreted too literally. The systems of savings vary in various parts of the world and the figures quoted in the early part of this chapter are questioned in statistics reproduced in its latter pages. Nor have I taken, for purposes of comparison, more than a few representative countries.

In some places, for example, the postal savings systems have been more highly developed than in others. It will be noted that, while in the United Kingdom but 5 per cent of the people have savings accounts in savings banks, the United Kingdom leads the list of depositors in postal savings banks. The Post Office in England is apparently the great and popular bank of the small saver.

Yet, despite the fact that the comparison must not be taken too seriously, it should be taken seriously enough to afford valuable evidence of our habit of thrift in the United States.

We have the reputation of being a wasteful people—of being the richest and, at the same time, the most improvident people in the world. I doubt very much that we deserve such a reputation. At the same time the following analysis clearly indicates that there is ample room for thrift promotion in the United States.

Starting with figures which are most unfavorable, let us make some analysis of them and then pass along to the consideration of more recent and encouraging statistics so that, if possible, we may, from the whole determine what is the fact as regards our national tendency towards thrift.

How Many People Save Money in the United States?

To begin with, page 185 of the Comptroller of the Treasury's Report for 1921 contains an analysis of savings banks, including postal savings systems, the amounts of deposits, the average deposit per depositor and the average amount of deposit per inhabitant, of various countries. In this analysis we are here concerned only with the number of people who save in the United States. It should be clearly borne in mind that the credit union is concerned with people first—and money afterwards—and that our inquiry is to determine how many of our people have acquired the saving habit. I have taken a few countries at random from the Comptroller's list, without attempting any analysis until the figures were listed. The complete figures used in the analysis are as follows:

ANALYSIS CONTAINED IN COMPTROLLER'S REPORT

<i>Country</i>	<i>Population</i>	<i>Form of Bank</i>	<i>Number Depositors</i>	<i>Deposits</i>
France	39,002,000	Private savings banks	1,922,365	\$591,352,006
Germany	66,715,000	Postal	6,908,854	194,119,692
Italy	30,740,000	Public and corporate savings banks	32,769,470	3,858,832,210
Japan	57,647,000	Communal and corporate savings banks	2,639,201	410,338,436
		Postal	6,273,500	547,211,842
		Private savings banks	9,705,600	99,759,850
		Postal	20,088,718	301,332,170
United Kingdom (England, Scotland and Wales)	42,279,000	Trustee savings banks	2,046,996	245,758,195
Australia	5,346,000	Postal	15,215,824	989,174,810
United States	108,176,000	Gvt. and private savings banks	3,171,230	510,163,974
		Mutual and stock savings banks	10,737,843	6,018,258,000
		Postal	466,109	152,389,903

The figures are of various dates and are those most recently available at the time of the Comptroller's Report of 1921. It would seem, therefore, that they are not unduly favorable to the United States as we emerged from the war rich, while most of the European countries above enumerated came out of it poor. The war surely did not impoverish us.

In order to determine where we stand in the matter of savings depositors I have added from the Comptroller's list, simply for the purposes of this comparison, also the Netherlands, Norway, Spain, Switzerland and Sweden in order to have a representative group of European nations which remained neutral during the war.

The following table is confined to a comparison of the number of depositors (*a*) in savings banks and (*b*) in various systems of postal savings:

<i>Country</i>	<i>Population</i>	<i>Depositors in Savings Banks</i>	<i>Depositors in Postal Savings</i>
United States	108,176,000	10,737,843	466,109
France	39,602,000	1,922,365	6,908,854
Germany	66,715,000	32,769,470	..
Italy	36,740,000	2,639,201	6,273,500
Japan	57,674,000	9,705,600	20,088,713
Netherlands	6,831,000	561,179	1,887,362
Norway	2,658,000	1,530,807	..
Spain	21,283,000	962,718	325,144
Sweden	5,847,000	2,200,067	661,686
Switzerland	3,970,000	2,597,947	..
United Kingdom	42,279,000	2,046,996	15,215,824
Australia	5,346,000	3,171,230	..

The next table indicates the approximate proportion of the population in each of these countries having (*a*) accounts in savings banks and (*b*) having postal savings accounts:

(a) <i>Proportion of Population Depositors in Savings Banks</i>		(b) <i>Proportion of Population Depositors in Postal Savings Systems</i>	
	<i>Per Cent</i>		<i>Per Cent</i>
Switzerland	64	United Kingdom	36
Australia	60	Japan	35
Norway	57	Italy	17
Germany	50	Netherlands	16
Sweden	38	France	16
Japan	16	Sweden	10
United States	10	Spain	2½
Italy	7	United States	¼ of 1
Netherlands	7		
France	5		
United Kingdom	5		
Spain	4		

It is of course a fact that many of the depositors in savings banks also have accounts in postal savings banks. Assuming for the moment for purposes of further comparison that such is not the case and that, in order to get the combined total of savers of this description in the various countries we should add the savings bank depositors to the postal saving depositors and the proportion of population having accounts would work out as follows:

	<i>Per Cent</i>
Switzerland	64
Australia	60
Norway	57
Japan	51
Germany	50
Sweden	48
United Kingdom	41
Italy	24
Netherlands	23
France	21
United States	10 4
Spain	6.5

That the above figures are to be interpreted liberally is also indicated by the fact that they cover but savings banks and postal savings. If the savings

accounts in commercial banks were added it might make a difference with all of the countries in question. For example, the Statistical Abstract of the United States, page 769 (1920 edition), lists the total depositors having savings accounts in the United States as 11,427,556, but this figure includes deposits in National Banks, Savings Banks, State Banks, Loan and Trust Companies and Private Banks. Within this total are doubtless many commercial as distinguished from purely savings accounts. There is also another element in favor of our showing which is not included in the above figures, namely, the large and rapidly growing membership in building and loan associations, which will be later discussed.

Having noted thus far that, as savers in savings banks and in the postal systems, we rank very low apparently in comparison with some other countries much less able than we to show a favorable balance represented by a savings account, it is now interesting to note that, while the number of our savers according to this comparison is relatively small, the amount of individual savings in the United States is, as would be expected, relatively great. The following table shows the average savings per saver in the countries used for comparative purposes:

<i>Country</i>	<i>Average Deposit per Saver in Savings Banks</i>	<i>Country</i>	<i>Average Deposit per Saver in Postal System</i>
United States ...	\$560 57	United States ..	\$326 94
Australia	160 87	Italy	87.23
Italy	149 80	United Kingdom ..	65 01
United Kingdom	124 45	France ..	28.10
Germany ..	117 76	Japan	15.02
France ..	74 64		
Japan . .	10 29		

It is interesting to note in the Comptroller's Report that the individual saver in Canada has the next largest individual savings deposit to that of the United States with a postal savings average of \$357.50, somewhat higher than the United States average, and a Dominion Government Savings Bank average of \$450.30, which is appreciably lower. Of all the comparative figures used in the Comptroller's Report, only in Tunis was the average savings deposit greater than in the United States. While but 1883 of a population of almost two million had savings accounts, their average is \$752.10.

Thus far the figures seem to establish the fact that the individual saver in the United States saves more than the individual saver elsewhere but that there are not enough savers in this country to compare favorably with other and less prosperous countries.

This would seem to indicate that we have sufficient facilities in the United States to serve the individual who is normally thrifty and can save appreciable amounts. The obvious need would seem to be for some system or systems which can and will attract small savings. The figures indicate that the Postal Savings System is not sufficiently attractive to fill this need. Uncle Sam as a Banker, offering two per cent interest on deposits, does not seem to be in earnest about doing any considerable banking business.

In a recent article in *Collier's* by Roger William Riis, entitled "How Uncle Sam Plays Shylock," it is pointed out that:

"Little people, coming with their little moneys to the mighty American post office asking it to bank their savings for them—here is trust of a peculiarly appealing kind.

And our United States Government is betraying it. First, by advertising two per cent simple interest on deposits in postal savings. Second, by actually paying much less than that—the lowest rate of interest in the world. Third, by reinvesting the sums intrusted to it and making an actual profit out of them—some \$2,500,000 last year.”

In substantiation of this charge the article describes the type of depositor who makes use of the Post Office and the terms on which his deposit is made.

“The first fact to get hold of is that Postal Savings handles the money, not of rich people, not of moderately well-to-do people, but of our poorest. Many of them are not yet citizens. Postal Savings depositors—most of them—are pretty near the economic rock bottom. They have little in the world except their jobs.”

And yet

“the richest Government in the world offers to its poorest citizens the lowest known rate of interest—two per cent. That is bad enough in itself. In the second place, the rate it actually pays works out still lower. If you need your \$10 at the end of fifty-one weeks you would get no interest at all. If you withdraw your \$10 one day before it has been on deposit two years, you will get the same amount of interest you would have received at the end of a year and a day. No attention is paid to fractions of a year—not by Uncle Sam.”

Again,

“the Government takes this money on which it pays less than two per cent, puts it in other banks at two and one-half per cent and gets that two and one-half per cent counted up every three months. The outcome is that it’s a lean year

when the United States doesn't make a couple of million dollars out of its poorest citizens."

Mr. Riis points out that the Post Office Department wants to see the abuse set right and favors a bill now pending which proposes to have the Government pay 3 per cent instead of 2 per cent and pay a real 3 per cent, and that the accumulated deposits shall be hired out at not less than 3.25 per cent. The article affords ample evidence of the need of changes in our Postal Savings System.

Building and Loan Associations

We come then logically to a consideration of the development of the Building and Loan Associations in the United States.

As I have before indicated I am inclined to believe that Raiffeisen, had he had the opportunity to study the building and loan development in the United States, would have claimed more or less remote kinship for it with the systems which he and Schulze-Delitzsch originated in Germany. The credit union and the building and loan association have much in common. As will be later discussed they are sufficiently different so that there is a distinct place for both. They have in common, however, a most democratic form of organization. The appeal is to the small saver and both systems encourage small savings through an installment share plan. Building and Loan Associations, like credit unions, operate with low overhead and are managed, for the most part, under the supervision of State Departments of Banking.

Building and Loan Associations specialize in investments in mortgages and have for their main purpose both the stimulation of thrift and to assist members to build and buy homes. They are not generally concerned with specific groups and have larger possibilities of individual development than have credit unions. They do, however (and there are fundamental points of difference) seek the small saver and they do make it easy for him to save. Their rapid development in recent years has a distinct bearing on this particular discussion because they constitute a system which meets in part measure the need in the United States disclosed by the comparison.

Their total membership, according to the Statistical Abstract for 1920, was 4,289,326, with total assets \$2,126,620,390. As this is being written the United States League of Building and Loan Associations is meeting in annual convention at Portland, Maine. Mr. H. F. Cellarius of Cincinnati, the Secretary of the Association, reports a total membership of 5,809,888, an increase in a single year of 847,000. The total resources are now \$2,890,764,621, an increase in a single year of three hundred and seventy million dollars. The building and loan associations have kept their light under a bushel. They constitute a very substantial realization of the acute need in the United States of thrift promotion through a system which is materially increasing the number of individuals with savings accounts in this country. The possibilities of co-operative banking are being demonstrated in most practical fashion by this development.

Adding to the savers reported in the Statistical



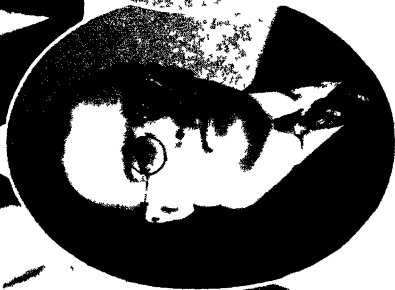
H. F. CELLARIUS



CHARLES F. DONAHOE



FELIX VORENBERG



ARTHUR H. HAM



WALTER F. McCALEB



CLARENCE POE



CARO D. COOMBS

Abstract, 11,427,556, the then membership of the building and loan associations, 4,289,326, plus the postal savings depositors, 466,109, and we have an approximation of the savers in the United States with accounts in savings banks, commercial banks, national banks, private banks, postal savings system and building and loan associations as of the approximate date of the Comptroller's Report—a grand total of 16,182,991, which boosts our percentage of savers materially, on the basis of then estimated population of 108,176,000, to nearly 15 per cent, which, however, would result in no rearrangement of the percentage column.

Were the figures available there would be other valuable and interesting bases of comparison. Had we, for example, statistics showing the number of workers in the various countries with savings accounts, this might afford new light on the subject. According to the 1910 census there were approximately thirty-eight million people in the United States engaged in gainful occupations. It cannot be assumed safely, however, that all depositors with savings accounts are limited to this classification. Further, according to the monthly review of the Federal Reserve Bank of Boston, while the population of New England is but 7 per cent of that of the entire country, over one-third of both savings bank deposits and the number of depositors are concentrated within that district. It is interesting in this connection to note that the credit union is developing rapidly in Massachusetts and that a need for its service apparently is recognized in the New England state in which are located half of the New England banks and more than half the total savings.

The American Bankers Association's More Favorable Analysis

The difficulty with this entire phase of the subject is contained in the fact that most all of the statistics which have been hitherto compiled have been concerned with totals saved and not with individual savers. The accurate determination of the number of savers is not only complicated by the fact of the duplication of accounts—the fact that the individual saver may have one, two or a dozen accounts—but by the further complication pointed out by Mr. L. D. Woodworth, Deputy Manager of the Savings Bank Division of the American Bankers Association, in a recent letter, that doubtless many accounts which are in fact savings accounts are reported as commercial accounts. I am indebted to Mr. Woodworth for a copy of his most valuable analysis of the number of savings accounts in the United States contained in his report entitled “The Savings Bank Business” published by the American Bankers Association. In this compilation the definition of the term “savings account” is that contained in regulation “D” of the Federal Reserve Board, which reads as follows:

“The term ‘savings accounts’ shall be held to include those accounts of the bank in respect to which, by its printed regulations, accepted by the depositor at the time the account is opened—

“(a) The pass-book, certificate or other similar form of receipt, must be presented to the bank whenever a deposit or withdrawal is made, and

“(b) The depositor may at any time be required by the

New York, New Jersey, Pennsylvania, District of Columbia, Delaware and Maryland and that approximately thirteen million (or nearly one-half) of them were concentrated in the three states, Massachusetts, New York and Pennsylvania. These three states, which have almost 50 per cent of the savings accounts, have 22 per cent of the population.

Mr. Woodworth points out the obvious danger of a too free interpretation of comparative figures used by way of illustration earlier in this chapter.

"Some widely quoted comparisons between this and other countries have had no more substantial foundation in fact than the tables reported by the Comptroller of the Currency which show for this country the amount and number of savings accounts in mutual savings banks and more or less complete reports from a variety of savings institutions in other countries for a wide range of dates. By way of suggestions to any persons who would venture international comparisons of thrift by means of statistics, we deem it important to request that some regard be given to the place of the savings bank function in the economic life of each and every country, the investments ordinarily selected by each people as a means of safeguarding their savings, the comparative opportunity for acquiring a surplus and the needs of objects of thrift with which the masses of each country are confronted."

Add to the figures 26,637,831 the building and loan total, approximated at 5,000,000, plus the Postal Savings depositors at 500,000 as suggested in the report, and add 3,000,000 for good measure and take no account of the duplication of accounts, and we have an estimated grand total of 35,137,831, compared with a

population total of 108,176,000, less than 33 per cent, which would boost the United States two notches in the percentage table previously quoted.

This comparison is of course not accurate because of the duplication of accounts and the differences in various systems abroad to which Mr. Woodworth refers. But isn't any comparison, as has before been indicated, unduly favorable to the United States when the present economic condition of Europe is considered and the figures used in the Comptroller's Report were compiled, apparently, after and not before the war?

As I have tried to point out in this chapter, too close analysis of comparative figures of this description should not be made, nor should too positive conclusions be drawn. There are many phases of thrift development of relatively recent origin which will have to do profoundly with thrift promotion in the United States. The School Savings system now has enrolled over a million school children who are learning the benefits of thrift in a most practical way. Christmas savings clubs are making rapid strides and it is interesting to note that many who accumulate savings in this way become permanent savers. I have made some study of Christmas savings clubs in credit unions and find that from thirty to sixty per cent of the amounts saved in this way remain in the credit unions as permanent savings accounts and that only a part is permanently withdrawn at Christmas. The credit union seeks to supplement this thrift field—to be one of the agencies to promote thrift. However the statistics be viewed, the fact undoubtedly remains that there is room for thrift promotion and for any sound agency that will

contribute to the development of thrift as a characteristic of the American people.

Can the Credit Union Help Out Materially?

Admitting the need of thrift promotion on a national scale, it becomes at once apparent that systems should be developed to meet the need in a logical way. The large average savings of our savers indicates that the need is for a system which will get into saving habits the individuals whose savings must, of necessity, be small and, further, there is need of education in the matter of saving. We have noted the splendid development of the building and loan associations. Is the credit union logically a further necessary supplement to the banking system?

Thus far the credit union system has been through an experimental process. There are probably approximately 75,000 credit union members in the United States at the present time, with assets aggregating approximately twelve million dollars. As has been indicated there are credit unions in successful operation in Massachusetts, New York, Rhode Island, New Hampshire, North Carolina, South Carolina and Kentucky. There are laws in other states and there has been a sufficient experimentation to indicate not only how they must be changed, if results in credit union organization are to follow, but also to point the way to the right sort of credit union enactment.

There are credit unions of men and credit unions of women. There are successful rural credit unions of small membership and large urban credit unions. There are credit unions composed of farmers, of car-

penters, of municipal employees, of department store clerks, of State and Federal Employees, of telephone girls, of the folks in some neighborhood or village, or people of one racial origin; there is a Japanese credit union in New York and a Polish credit union in Massachusetts. There are credit unions in church parishes after the Desjardins model, and credit unions in settlement houses. There are credit unions of members of a labor union and credit unions in open shops. The experimentation has been on a broad scale and, as the Massachusetts Bank Commissioner has indicated, in Massachusetts at least the experimental period is over.

What may happen when a logical development results is indicated by the following extracts from a speech by the then Bank Commissioner of Massachusetts, Augustus L. Thorndike, at a Massachusetts Credit Union Conference in 1917: "As to what the credit unions can do. In the old world—in Germany, for example—there is a credit union for every 2500 people. If we had the credit union system fully expanded in Massachusetts there would be room for 1500 credit unions." According to the 1921 Massachusetts Bank Commissioner's Report the average credit union membership was 400 and the average assets approximately \$50,000. Fifteen hundred credit unions in Massachusetts will mean a new accumulation of \$75,000,000, the sum total of the small savings of over half a million new savers. Such a system developed throughout the United States would mean from forty to fifty thousand credit unions. If each of them had half the membership of an average Massachusetts

credit union (200 members) ten million new savers would have been created and, if they averaged half the Massachusetts size in assets, over a billion dollars added to the capital resources of those people in the United States who most need capital resources. It will take some time to accomplish this result, but it is certainly a splendid objective.

When this objective is reached a start will have been made.

The present credit union development has survived numerous difficulties but has been slow from the American standard. Our first law, as has been indicated, was enacted twelve years ago. For the most part it has operated in the most abnormal years of the twentieth century, a period not excelled for abnormality in the centuries which preceded this one. It is significant that, in Massachusetts, no credit unions liquidated during the period of greatest industrial depression despite the fact that they had no system analogous to the Federal Reserve Bank to lend the steadying hand so necessary in times of general economic disturbance. The results of the experiments justifies the conclusion that the credit union is a sound thrift agency, capable of very general application.

Successful credit unions vary in membership from twenty members to six thousand. Some accumulate money in share payments as small as ten cents a week, others in much larger units. They are managed successfully by people without experience in banking and they have a fine record for honest administration—for careful credit diagnosis and for efficient management. Those that have failed have either been poorly

located, have not been organized with a credit union purpose in mind, or have been without proper management and supervision, difficulties which can be easily remedied.

There are logical reasons why the credit union fits in as a plan which, once in general operation in the United States, will increase rapidly the percentage of savers. It is devised to meet the needs and convenience of the small savers and the statistics indicate the lack of small savers to be the weakness of our banking situation. In a pamphlet issued by the State of Massachusetts in 1915 the Bank Commissioner recognizes the unique place of the credit union:

"Operating in a personal manner in local fields or groups they can teach their members the desirability of saving in a way the less personal savings banks cannot do. Credit unions do not in any case become competitors of coöperative or savings banks; they open a new field of thrift, and encourage people to save who have not hitherto had savings accounts."

That the credit union is interpreted to be a logical supplement to the banking system is indicated by the cordial feeling of banks and bankers, who are familiar with the system, towards it. In a later chapter a booklet issued by the Bankers Association of Georgia, urging credit union legislation in that state, is quoted. Something of the character of credit union support in Massachusetts is evidenced by the make-up of the Board of Directors of the Massachusetts Credit Union Association, which, until July 1, 1921, conducted the propaganda work in that state. The Board included

two Judges, one United States Senator, ten of the leading manufacturers and merchants of the state, the majority of whom were directors in Boston banks, the City Treasurer of the City of Boston, three prominent labor leaders, the Secretary of the Federated Jewish Charities, the trustee of a large estate, two lawyers, the trust officer of a large bank, and of the total membership thirteen were connected as directors or otherwise with Massachusetts banks.

In the 1919 Report, Bank Commissioner Augustus L. Thorndike comments on the fact that the members of credit unions were doubtless persons "who had never previously acquired the habit of saving." This is the testimony of credit union managers, with very many of whom I have discussed this fact in detail—that their members, for the most part, had no savings accounts prior to their membership in the credit union. Clearly the credit union supplements the banking system and does not compete with it. As all credit union funds are deposited in banks it becomes again obvious that the credit unions are making a new and substantial sort of banking business for existing agencies.

The possible value of the credit union as an accelerator of small savings is contained in the fundamental principles of credit union organization. Some people can only save when savings is a sort of compulsory habit. Witness the sale of Liberty Bonds to wage workers on an installment plan. In the credit union all emphasis is placed not only on the small unit of saving but equally on the regularity with which it is made. Further, many people will not save if saving involves any inconvenience. The Massachusetts Tele-

phone Workers Credit Union is on the first floor of the Telephone Company office in Boston. In order to make its work even more effective it is now in process of dividing the credit union into five credit unions conveniently located in various parts of the state. While it has over 6000 members and at its present rate of growth its assets will pass a million dollars in two years, it is not satisfied and seeks to make its service even more convenient, realizing that in the convenience of credit union service lies the secret of success. Further the credit union plan gives the depositor an appreciable return on his money. Rarely do credit union dividends fall below 5 per cent and often the rate is 7 per cent—made possible by their low overhead and large amount of business. Again, the credit union, as has been and will be further emphasized in this book, while it places emphasis on security, places equal emphasis on service and makes the money work for the members.

The relationship is personal. Credit unions are different from banks. There is an esprit de corps—a loyalty—which makes for business in good times and keeps faith strong in times of trial.

And back of this probability of fitness for service is the amazing results which have enabled other and less rich countries than the United States to make a better showing when the comparison is between individuals saving money rather than totals accumulated.

Finally, the credit union is completely coöperative, as has been said. If a member wants to save twenty-five cents, his deposit is welcome. The credit union specializes for him. If he needs to borrow, the credit

union is his bank, where he can go with dignity and get fair treatment. No credit problem is too small. He knows that the members control it—not the money of the members. The credit union is handy for him. His own sort of folks are operating it and, if it makes a dollar, he knows that he will get his share of it.

These facts are submitted as having a bearing on thrift promotion in the United States. If need has been found for the credit union in New England and there the need has been satisfied by a rapidly expanding credit union system—in New England, where 7 per cent of the population have 33 per cent of the savings in savings banks in this country—is it not logical to believe that the credit union plan will meet with the even greater need that exists elsewhere in the United States?

CHAPTER VII

USURY AND THE CREDIT UNION

What Is Usury?

Usury is a short, ugly, unpleasant word. It describes the practice of loaning money at other than legitimate rates of interest. What constitutes a "legitimate rate of interest" is a matter of individual opinion. As I shall try to indicate in the course of this chapter, an off-hand opinion is not of great value as the problem of small credits is sufficiently complicated so that what seems, at first blush, obvious, appears less obvious upon examination.

The importance of the problem is indicated by this fact. A carefully worked out and long sustained effort has been made in the United States to eliminate usury, and the plan of elimination involves furthering the enactment of a uniform small loans bill which has thus far been adopted in fifteen states. This bill legalizes a rate of $3\frac{1}{2}$ per cent a month on small loans—42 per cent per annum. Lest this be misinterpreted, may I here call attention to a case, which will be discussed later in detail, where the borrower paid 40 per cent a month and on one occasion paid 20 per cent for a single day's accumulation (which the reader will note works out a per annum rate of 7300 per cent).

Usury in an Eight Per Cent State

The first difficulty in arriving at a sane viewpoint as regards the extent of usury and some practical method whereby credit facilities will be created for those who hitherto have been the victims of the usurer is well illustrated by extracts from my recent correspondence. The Bank Commissioner of one of the Southern States wrote me that there was no usury in his state because the law of the state limits interest rates to 8 per cent per annum. The Commissioner of Labor of the same state writes:

"I know of cases when a loan was made for fifty dollars. The borrower received fifty dollars but made ~~out~~ a note for seventy-five dollars, payable \$7.50 per month and bearing interest at the state rate of eight per cent. In addition the usual 'attorney's fee' is to be added, as are court costs, if the borrower fails to meet all payments promptly. And observation has convinced me that both the fee and the costs are outrageously high."

This case is not a circumstance, however, to another case he cites in which the borrower negotiated a loan of \$12. Interest at the state rate of 8 per cent was deducted in advance. Thereafter "the borrower paid \$4.80 a month for nearly two years, when he took sick and was unable to continue his payments. The lender then sued him for the entire original principal sum, put the court costs on the borrower and forced the payment of a ten dollar attorney's fee." The Commissioner, commenting on this particular case, states that "similar cases are not unusual." When this relatively insignificant case is analyzed, something of the extent of the

problem becomes self-evident. The borrower received \$11.04, paid "interest" aggregating more than a hundred dollars and then, according to the bookkeeping of the lender, still owed the original face of the loan, \$12.00, plus attorney's fees and costs. Bear in mind—because it has a most important bearing on the discussion—that in this state the "legal rate" of interest is 8 per cent.

Two Typical Cases

A book, longer than it is the plan of this book to be, might be written which would contain nothing but a collection of similar cases. The files of every credit union are filled with similar stories of human suffering. A few cases are cited, simply in order that we may get the proper prospective on the problem.

A Massachusetts Case

For example, an investigation conducted by Mayor James M. Curley among the city employees of the city of Boston, Massachusetts, a few years ago, disclosed the fact that over one hundred of them were paying interest on small loans at an average rate, by actual computation, of 180 per cent. In addition these men and women were averaging to lose a half day's pay each week, while they straightened out their individual difficulties, arising from the assignment of wages, attachments and other forms of direct and indirect pressure exerted by the "loan sharks" to whom they were indebted. Mayor Curley, commenting on this condition, in 1917, said: "The story told by the city employees so astounded the Mayor that he ordered an

investigation. This investigation revealed the facts that city employees were being grossly imposed upon in that they were charged excessive rates of interest for loans, and their wages were being held up by illegal processes; that the laws relating to these matters were inadequate, and that the laws of the Commonwealth were being utterly disregarded by the money lenders." Having this case in mind, remember that these men and women were regularly employed. This also has a bearing on the problem, as it is completely a misconception that the victim of the loan shark is, in the majority of cases, some individual who either cannot or will not work. This fact will also be discussed in detail later in the chapter.

An Illustration from Alabama

Consider one more specific case in order to get a conception of the extremes to which the "loan shark" will carry his business when conditions are exactly to his liking. This case is contained in an affidavit properly signed and executed, which is a part of a Bulletin issued by the Department of Public Welfare of the city of Chicago (Vol. 1, No. 4—November, 1916). It is probably a somewhat extreme case and is offered as such. It is possible, but not probable, that it could not be duplicated today, but it illustrates the problem and the rate of interest discussed—20 per cent a month—is not much greater than was paid by the victim whose plight is discussed earlier in the chapter.

The affidavit is as follows, with the names omitted:

"My name is ——— and I live in Birmingham, Alabama. I have lived here about fifteen years. For the

last three years I have been borrowing money from and have been indebted to Mr. ——— except for about six months, when I was off the road. I work for the Alabama Great Southern Railroad as a brakeman. In March, 1912, I borrowed money from Mr. ——— and have been indebted to him since, except for about six months. On all the money I have borrowed I have paid him twenty per cent interest every month and, if I did not pay him the money when it was due I had to pay him forty per cent, or forty cents on the dollar. If I borrowed money the day before pay day and paid it back the next day, I would have to pay twenty per cent interest for that one day just the same. For the last six or seven months I have been paying him forty per cent interest every month, because I got one month behind. Every month for the last two and a half or three years, Mr. ——— has gotten my check from the paymaster, and I have been forced to go and borrow money from him to buy groceries with, and have paid him twenty per cent on all the money borrowed and forty per cent if it was not paid on the day it was due. I make between sixty and seventy dollars a month. Every month Mr. ——— gets my check and I then go to him and give him another assignment and he loans me from thirty-five to fifty dollars of my money to live on during the month, at twenty per cent interest."

Signed ———.

Subscribed and sworn to before me this 1st day of September, 1915.

NELL FREEMAN, Notary Public.

In the same Bulletin reference is made to one company operating five offices which made a total of 45,000 loans in a single year at an average rate of interest of 228 per cent.

Usury in the Country

Leaving, for the moment, the consideration of usury and the wage workers, we find the problem, in another form, vitally affecting the small farmer. The reader will recall the following quotation from Mr. Thomas' interesting article relative to the Lowe's Grove Credit Union discussed at length in the chapter covering the "North Carolina or Rural Credit Union." It is worth repeating in connection with this discussion.

"The credit union was born of necessity. Practically all of the farms were small and were run on a one-crop basis. In most cases the farmers did not have enough cash to finance the farming operations for a year. The farmers were forced to mortgage their crops to supply-merchants in return for supplies necessary to produce crops. Under this system they were doomed to failure in the beginning—a system that made them vassals of the supply-merchant, who charged them thirty-eight per cent credit for their supplies and dictated as to what they should buy and when they should sell their crops."

The following quotation from a speech by John Sprunt Hill will also be recalled:

"The crop lien system, costing the farmer fifty per cent, or the cooperative credit, costing the farmer 6 per cent, is the greatest single issue before the people of North Carolina to-day."

As having a distinct bearing on this phase of the subject the analysis of cash and time prices by Clarence Poe, quoted in full in a previous chapter, will be

recalled, indicating in ten Southern states that the small farmer, unable to pay cash, pays rates varying from 54 per cent to 90 per cent for his credit on the standard articles required in his business.

The United States Industrial Relations Commission probed the causes of unrest in the South and conducted hearings and made a very careful examination of conditions. Contained in its final Report is this significant statement:

"A very large proportion of the tenant farmers are hopelessly in debt and are charged exorbitant rates of interest. Over ninety-five per cent of the tenants borrow from some source, and about seventy-five per cent borrow regularly year after year. Furthermore, over eighty per cent of the tenant farmers are regularly in debt to stores from which they secure their supplies, and pay exorbitant prices for this credit. The average rate of interest on store credit is conservatively put at twenty per cent and in many cases ranges as high as sixty per cent."

Difficulty of Exact Statistical Analysis

Perhaps enough has been said to indicate something not only of the existence of the problem but its complexity. Those who have investigated the small loans problem have found usury here, there and everywhere in the United States, and what they have been able to actually reduce to statistical arrangement is probably but a small part of the whole. Usury is essentially a "boot-legging" business which can be conducted in defiance of law because of the difficulties incidental to its detection. The very relationship of borrower and lender makes for secrecy.

The Usurer Does Not Operate Openly

To begin with, the "loan shark" does not hire an office and paint "usurer" on his door. According to an investigation conducted in Chicago a few years ago, professional usurers were found to be listed in telephone directories under varying classifications, none of which indicated the real nature of their business. Some were in the "Investment and Securities" business. Others were "Manufacturers' Agents," "Collection Agencies," and some listed simply as lawyers, real estate brokers, tailors, bankers, manufacturers, etc.—all those investigated having no other real business than that of practicing usury. Of the 229 small loans houses investigated only eighteen were found to be incorporated and nine of these had lost their charters for failure to file their annual reports, and in none of the charters was the purpose of the corporation set forth to conform with the fact. One of them was chartered "to conduct a general lunch counter and hotel business"; another, "for the examination of titles to real estate"—a most interesting variety of camouflage, all designed to conceal the real purpose of the business.

Professor Eubank's Analysis

In an article by Professor Earle Edward Eubank, entitled "Loan Sharks and Loan Shark Legislation in Illinois," published by the Russell Sage Foundation, Professor Eubank says further on this point:

"The essence of the power of the loan shark is the victim's ignorance—first ignorance due to carelessness in many instances, of the obligations which he signs when he receives

his loan, second—ignorance as to what his rights really are under the law; third—ignorance as to the means of redress which are available after he has discovered the plight he is in. With reference to the first of these the loan shark system has worked out an elaborate set of forms, guarantees and assignments which the borrower is required to sign before he can get his money. Usually he does not read the papers signed and, if he should, he would not dare to protest, for he wants the money and he is made to feel all the while that the lender is doing him a personal favor by letting him have it and therefore he must not ask too many questions.”

“He may or may not know, but he has probably signed all of the following papers: first, notes for the money borrowed (separate notes for the principal and interest so that in case he should subsequently discover his rights and protest against the interest, the note for the principal would appear as a separate item); second, an assignment of his wages to the lender to be drawn on in case he fails to pay; third, usually a further security in the form of a mortgage on his household effects and, fourth, a power of attorney to be vested in the loan shark himself. No copies of these are given to the borrower, so he has no way of proving what he has or has not signed. Neither are receipts given for the amounts paid in, nor the documents returned which he originally signed.”

I have in mind one state which affords an interesting sidelight on the ineffectiveness of some usury laws. In this particular state interest rates are limited to 8 per cent, but “loans made by merchants to their customers” are excepted from the operation of the law. It is the custom in this particular state for the lender to require of the borrower that he purchase some inconse-

quential thing—a second-hand kitchen chair, for example, at many times its actual value—and then, having established the relationship of “merchant and customer,” to make the loan and charge whatever the traffic will bear.

Extent of the Business

Professor Eubank further points out that the money lending business is a complex organization.

“In practically every city and large town in the United States today men exist who make a business of exploiting the financial extremity—actual or imagined—of individuals who are unable or unwilling to utilize the ordinary channels for securing money. These persons, professional money lenders, use the urgent necessity of their patrons to extract from them in illegal ways usurious rates of interest, extortionate fees and special charges, amounting in some cases to hundreds of per cent a year. They have in many instances, as organized companies, built up a systematic technique of business, none the less effective because contrary to law. Elaborate devices for holding old trade and securing new, reprehensible ways of collecting illegal charges, skillful processes for evading laws—these have all been worked out with consummate skill.”

In Chicago, after a long and painstaking investigation, conducted under most difficult conditions, data relative to 229 loan sharks were secured and specific cases of extortion, with verifiable details, were obtained against 199 of them and, against the others, conclusive circumstantial evidence. The rates varied from 10 per cent to 40 per cent a month—from 120 per cent to 480 per cent per annum.

In Professor Eubank's article it is further pointed out that a number of the Chicago houses operated branches. One of them was found to be doing business in sixty cities.

There appeared in one of the cases pending before the then Judge Landis one witness, the local manager of a money lending firm, who testified reluctantly that his company did business in seventy offices scattered throughout the country.

Quoting from an address delivered in 1911 by the then Director of the Division of Remedial Loans of the Russell Sage Foundation, Mr. Arthur H. Ham, something of the extent of the loan shark business of eleven years ago becomes evident.

"My investigation shows with fair conclusiveness that in every city and town of more than 30,000 population one usurer may be found to every five or ten thousand, and approximately five borrowers to every one hundred of the population, or about twenty per cent of the number who vote."

The "Clearing House"

In 1895 the leading Chicago lenders organized a "clearing house," designed primarily to act as a central service station for the prompt distribution of information about "customers" and to promote coöperation in the development of the "business."

A publication of the Kentucky Conference on Social Work states that the rates charged in Kentucky vary from 15 per cent to 50 per cent a month—from 185 per cent to 600 per cent per annum.

Loan Shark Methods

In a campaign against the loan sharks in Cleveland some years ago Mr. Poulson, the city prosecutor, captured a thirty-six-page book, entitled "Book of Instructions." A few quotations from the book shed some light on loan shark methods and help complete the picture of the practice of usury, with the elimination of which practice the credit union is most vitally concerned. The following are a few choice gems from the book of instruction:

"Do not get timid on account of kicks by customers. Do not allow too much sympathy when they come around with hard luck stories."

"Use 'soft-soap' talk only after you have tried stones and gravel."

"If your customer mentions 'the law' hunch your shoulders and say you do not know much about that"

"Bluff the borrower, by rattling the papers on your desk. Pretend to phone to an attorney but hold the phone closed. Remember the whole proceeding is more or less of a bluff."

"Give your customer good hard roasts"

"Bring up the point of a new law and do whatever bluffing you want to, but to talk to customers in general about new laws I do not approve. There is no use putting the notion in their heads, as they would probably go and see somebody and find out what the new law is. The result would be more apt to do us harm than good."

"We need managers with bull-dog determination."

"Get some attorney who will sell you his legal letter heads and then write your customers upon them."

These and many other sage bits of advice show something of the lack of respect which the usurer has for his own business.

The Loan Shark No Fighter

It is an interesting fact that the "loan shark," while he will threaten, persecute, drive his victim out of his job, and use every trick in the category of mean tricks to make his victim submit to the conditions which he imposes—while he will play every advantage naturally incidental to his victim's condition—in the final showdown he is always a coward. In private practice as a lawyer I have had occasion from time to time to attempt settlements with "loan sharks," and they will always "settle." I have in mind the manager of one of the largest Massachusetts credit unions (and his experience in this matter is typical) who had occasion a few weeks ago to straighten out the affairs of one of the employees of the company who owed money to five loan sharks totaling almost \$900. He was able to get such substantial reductions that, eventually, he reduced the total below four hundred dollars and the credit union was able to make a loan to enable the borrower to get rid of the loan sharks entirely. No loan shark wants a fight with an individual who knows his methods and who knows the law. The difficulty is that the loan sharks' methods, in the vast majority of cases, coupled with the state of mind of the borrower, results in the elimination of any third party who might assist the borrower to the assertion of his rights.

Something of this fact, which is generally recognized to be true by those who have had to do with the study of the problem, is indicated by the following tables showing a few of the settlements made through the Legal Aid Society of Chicago:

<i>Amount Demanded</i>	<i>Amount Settled For</i>	<i>Saved</i>
\$10 75	\$2 00	\$8.75
23 00	12 73	10.27
27 00	5 40	21 60
29 00	11 56	17 44
93 80	27.80	66 00
140 00	100 00	40 00
51 00	00 00	51 00
28 00	14 60	13 40
23 10	4 70	18 40
30 00	3 25	26 75
27 00	9 10	17 90
9 00	3.00	6.00
63 60	34 00	29 60
12 00	1 00	11 00
24 00	2 75	21 25
12 50	1 75	10 75
35 00	11 75	23.25
19 00	1 00	18 00
14 00	1 00	13 00
16 00	2 00	14.00
45 00	6 00	39 00
14 70	1 28	13.42
18 75	8 45	10 30
11 00	1 00	10 00

It will be noted that these 24 cases were settled for an average of 40 per cent of their face value. The Society has a record of 1266 cases in eleven years showing a net saving in settlements of \$16,884.88.

The following list is from the records of the First State Industrial Wage Loan Society.

<i>Demanded</i>	<i>Settled</i>	<i>Saved</i>
\$391 40	\$295 70	\$95 70
209 50	174.50	35 00
65 00	44.25	20 75
48 00	30 00	18 00
125 50	91 50	34.00
70 00	55 00	15.00
70.80	59 10	11.70
75 00	58 25	16 75
238 00	118 75	119.25
45 00	30 00	15 00
138 00	113 00	25 00
60 00	42.00	18.00
60 00	45.00	15.00
200.40	143.20	57.20
144 00	112.80	31.20

The genus "loan shark" knows he is in a bad business, that he is a pariah, exploiting human necessity, getting fat on human misery. There is no place for him in a civilized society and yet he continues to be tolerated. Why?

The Loan Shark an Ancient, Modern Problem

He has been doing business for a long time. Solon, archon of ancient Athens, forbade usury by law, a position which Socrates and Plato later endorsed on ethical grounds, and in medieval England, as late as the thirteenth century, Parliament made all payments for the use of money illegal.

Mr. Raymond B. Fosdick, formerly Commissioner of Accounts in New York City, speaking before the Academy of Political Science, November 11, 1911, approximated the answer to the modern toleration of usury:

"Before any campaign to oust the loan shark can be effective there must be some agency equipped and prepared to take its place. Indeed no campaign of extermination will ever succeed. No amount of condemnation will ever be effective. No negative laws, however drastic, can permanently relieve the present abuses. As long as we have citizens who want to borrow money—so long will agencies of some kind continue and it is only the better kind that will succeed in driving out the worse."

The Possible Sources of Relief

Professor Eubank groups the various sources of relief from the loan shark roughly within four classifications: (1) The purely philanthropic, whether under a reli-

gious organization or a non-sectarian charity or fraternal order, operating a loan fund and charging no rate of interest at all. In this respect it is a charity pure and simple and should be considered just as much a gift as a gift of food or clothing or rent. (2) The semi-philanthropic organization which is established primarily for the sake of the borrower, but is capitalized and run on business principles, not only paying expenses but giving a small profit to its backers. The members of the National Federation of Remedial Loan Associations are almost entirely of this character. They are business organizations with a social purpose and should be described as such. Mr. Ham is now Chairman of the Remedial Loan Association of New York. He writes, March 2, 1922, that there are now thirty or more remedial loan societies operating in the larger cities. They made loans from 1917 to 1920 as follows: 1917, \$30,500,000; 1918, \$33,000,000; 1919, \$41,000,000; and 1920, \$41,950,000. Approximately 600,000 loans were made in 1921. Rates varied with the type of business from 6 per cent per annum to 3 per cent a month, and a majority of them paid a 6 per cent dividend. The Remedial Loan Association combines business with social service in such manner that the borrower pays a rate of interest, in most cases, appreciably less than would be charged by other licensed money lenders, and the investors for the most part get a return on their capital which, while conservative, is better than average savings bank interest. This service is a great contribution to the solution of the problem. The third possible agency of service, according to Prof. Eubank, is the "purely business type which is

organized primarily as a matter of investment and keeps within the law." The fourth is the "self-help type, which probably is the most constructive of all," exemplified by "the employees coöperative savings and loan associations and in the credit union, which is growing in popularity in the United States." The Bulletin of the Department of Welfare of the City of Chicago previously referred to says:

"The Credit Union, in its adherence to self help as the best help will fill a place which will enable the workman to save himself from the crushing burden imposed by his loan shark relationship."

The Work of the Russell Sage Foundation

Having indicated something of the "loan shark" peril, much more immediately a peril to the American people than several other better advertised "perils," and having briefly alluded to the credit union and its relationship to it, we come logically to the first clearly defined and well executed effort in the United States to meet the problem—the work of the Division of Remedial Loans of the Russell Sage Foundation—and particularly the distinguished service rendered by its first Secretary, Mr. Arthur H. Ham. In 1907 and 1908 Mr. Ham, together with Dr. Clarence Wassam, held fellowships in the Bureau of Social Research. Their work, coming to the attention of the Russell Sage Foundation, led the Foundation to finance a preliminary investigation and to publish the report on the salary and chattel loan business under the direction of Mr. Ham and Dr. Wassam. A year later Mr. Ham was appointed Director of the Division of Remedial Loans

of the Foundation, which was organized in October, 1910. Quoting from an address delivered by Mr. Ham on September 21, 1921,

"The object of the Division was to conduct a campaign of public education with regard to the necessity for the small loan business as a part of our fiscal machinery and to point out the evil effects resulting from the operations of the prevailing commercial agencies in the field; to procure intelligent, reasonable legislation based on a desire to regulate rather than to annihilate the business; to secure the enforcement of such laws and oppose the passage of drastic, impractical laws; and to encourage the organization of remedial loan societies, that would make loans at the lowest rate consistent with sound business principles and a reasonable but definite limited return upon capital."

Two types of opposition were encountered. The "loan shark" opposed and continues to oppose the passage of any laws tending to regulate his business. That is normal. Those who give but passing thought to the problem oppose any rate which seems excessive when viewed from the standpoint of prevailing bank rates. This is an equally logical off-hand opinion. Within this latter group would be found the Bank Commissioner earlier referred to who contends that there is no usury in his state because the legal rate is 8 per cent. As has been pointed out, this type of statesmanship is content with the acceptance of the word for the deed. In this particular state I have data relative to a case where the rate charged was 470 per cent and the fact of the law does not alter the fact of usury in actual practice. Mr. Ham describes this condition in this language:

"If borrowing under a law is limited by impossible restrictions, then both borrower and lender will defy the law and take their chances on its being enforced. In the end the borrower always pays the price in high interest charges."

The Uniform Small Loans Bill

As a result of the study carried on by the Division, a bill was drafted requiring all lenders charging more than banking rates to be licensed and subject to examination, setting up numerous safeguards, providing adequate penalties, and limiting rates on small loans to 2 per cent a month. Later an alternative provision of a flat rate of 3 per cent a month, without fees, was substituted because of the difficulty of so regulating the fees as to prevent what would amount to a usurious rate. Finally, after the American Association of Small Loan Brokers had been organized and there had been numerous conferences between the Division of Remedial Loans and representatives of the better class of money lenders, the "Uniform Small Loans Law" was agreed upon, which permits a flat interest rate of 3½ per cent a month without fees or other charges.

Extent of the Uniform Small Loans Bill

Largely through the efforts of the Foundation the Uniform Small Loans Law has been enacted in Arizona, Connecticut, Georgia, Illinois, Iowa, Pennsylvania, Indiana, Maine, Maryland, Michigan, Virginia, Nebraska, New Hampshire, New York and Ohio. A similar law was enacted in Massachusetts except that the limitation rate in the Massachusetts law is 3 per cent a month.

Other Contributions by the Foundation

This effort is by no means the sole contribution of the Foundation to the solution of the small loans problem. The encouragement of remedial loan associations has already been referred to.

"These societies," writes Mr. Ham, "were expected to provide such competition as would result in the improvement of the methods commonly employed by money-lenders and to afford an object lesson that would attract reputable capital into the business. It was never expected or hoped that the remedial loan societies would so grow in strength or in numbers as to monopolize the field. They are intended as experimental agencies—an object lesson—a stabilizing force."

Something of the contribution of the Foundation to credit union development, particularly in New York state, has elsewhere been referred to. I doubt that any one would dispute the statement that Mr. Ham is the greatest living authority in the United States on the small loans problem or that the effort of the Russell Sage Foundation to assist in the solution of the small loans problem has been the greatest and most valuable single contribution made to date.

Opinions as Regards the Uniform Small Loans Bill

When Judge Landis, who was much concerned with the small loans problem in his Circuit, was asked for an opinion relative to the Uniform Small Loans Bill at the time of its pendency before the Illinois legislature, he wrote to Senator Austin, "Of course this three and a half per cent seems a tremendous rate of interest for

money, but we are dealing with a practical question. At all events it is better than 20 per cent a month, which, unless you gentlemen do something, will continue to be exacted."

The Chicago *Tribune* at about the same time said:

"Forty-two per cent a year sounds usurious but we must remember that we are confronted with a condition, not a theory, and that the present condition is ten times worse than the proposed remedy."

The Louisville *Herald* on February 11, 1920, discussing the Uniform Small Loans Bill then pending before the Kentucky legislature, said:

"It is not a question of 6 or 10 per cent versus 42 per cent, but of 42 per cent versus 1000 per cent. And that is a tremendous, a liberating influence."

Conclusions From the Work of the Foundation

The work of the Russell Sage Foundation, covering now a period of fourteen years and a field that is practically nationwide in extent, clearly establishes two facts that may be taken as fundamental. (1) The universality of the problem of usury in the United States and (2) the existence of a small loans problem which, to the satisfaction of the Foundation, cannot be met by credit resources created as a commercial proposition at a less rate of interest than 42 per cent.

We now come to a discussion of what seems to me to be a logical third conclusion, namely, that the final solution of the problem is not contained in credit created at a profit by private commercial agencies.

An Analysis of Usury

Take the problem of usury, put a pin in it and put it under the microscope. The diagnostical method is the only way to get at the possible solution of any difficulty. There is no virtue in the enactment of laws which carry no adequate provision for their own enforcement. Neither is it wise to seek to regulate an economic condition by a law which disregards the condition. Making a microscopic examination of usury we find many of the things that Mr. Ham found. In the first place we find that usury results from the need of credit and the lack of legitimate credit resources. The victim of the loan shark is not a free agent, choosing one source of credit against a competing source of credit. He goes to the loan shark because he needs money and has nowhere else to go. If he says to the loan shark, "I will not meet your outrageous terms," his other alternative is to get along without the credit. And the need is generally pressing. The borrower has probably exhausted every other possible source of credit before he turns to the "loan shark."

How Many People Are without Credit Facilities?

It is not difficult to estimate roughly the vast element of the population without ordinary credit facilities. With a population of a hundred and ten million, with eleven million of them having savings accounts (without, as a general rule, credit facilities resulting), with six million in the building and loan associations (with share loan credit), making a total of seventeen million in savings banks and building and loan associa-

tions, it is not difficult to estimate that over half of the wage-earning population are without credit facilities of the normal type. Mr. Ham's estimate in 1911, twenty per cent of the voting population, as then borrowers from small loans houses, is still probably conservative.

Who Are the Borrowers?

I have nothing more recent than an analysis of the transactions of the Atlanta Loan and Saving Company in 1914 except a very general experience with the Massachusetts credit unions, which now have a membership of forty thousand, but I know from the latter experience that the Atlanta analysis still is fairly representative. This analysis indicates the following purposes of loans:

373 persons borrowed because of sickness
 203 for domestic purposes—to pay debts, for furniture, etc
 201 for miscellaneous expenses—such as moving from one house to another, etc
 105 in connection with business so small that no bank credit has been established
 95 because of taxes, assessments, needed repairs of house, etc.
 66 to meet unemployment, business failures, etc.
 56 because of extravagance or dissipation on the part of some member of the family
 43 because of deaths.
 16 to make good bad investments, bad management, etc.

It will be noted that slightly less than 5 per cent of the total of loans made were necessitated by extravagance and dissipation.

Who is obliged to make small loans? An analysis of 2444 loans by the New York office of the Remedial Loan Association discloses the following:

<i>Number of Individuals</i>	<i>Business of Employer</i>
353	United States Government
553	New York City
21	New York County
17	New York State
246	Manufacturers
289	Merchants
83	Financial
75	Insurance
146	Newspapers
70	Railroads
11	Steamship companies
19	Express companies
32	Telephone and telegraph companies
9	Oil companies
22	Real estate
31	Contracting and building
11	Warehousing
32	Grocers
40	Tailors
52	Printers and publishers
42	Public utilities
10	Stationers
9	Restaurant keepers
8	Medicine and surgery
16	No business
247	Miscellaneous businesses

It will again be noted that practically all of the borrowers were employed. The positions held by the borrowers were as follows:

<i>Number of Borrowers</i>	<i>Position</i>
247	Clerks
245	Post office employees
95	Other federal employees
24	State department and court employees
177	City department and court employees
14	New York County employees
198	Members fire department
114	Policemen
344	Proprietors and partners
67	Managers
44	Secretaries and stenographers
40	Foremen
33	Agents
113	Salesmen

<i>Number of Borrowers</i>	<i>Position</i>
81	Factory operators
34	Machinists
33	Inspectors
39	Tailors
24	Artisans
108	Pressmen
18	Teachers
15	Doctors and dentists
15	Writers
18	Telegraphers and dispatchers
64	Bookkeepers and accountants
3	Conductors
222	Miscellaneous

It will be noted that less than 10 per cent of the total number of borrowers are unclassified, which fact does not mean that they were without reputable employment. In order to check this data and bring it up to date I have asked Mrs. Caroline C. Anthony, who manages the very successful Industrial Credit Union of Boston, to give me similar data covering a hundred loans made in June and July of this year (1922). This credit union is the oldest of the Massachusetts Credit Unions and has a very broad charter. It was organized in 1910 by the Women's Industrial and Educational Union and is a branch of the broader service rendered by the parent organization. Mrs. Anthony's list is as follows:

OCCUPATIONS OF BORROWERS

Factory foreman	1	Doctors	3
Telephone operator	1	Bookkeepers	8
Librarian	1	Mechanics	3
Fireman	1	Furnier	1
Musicians	2	Research worker	1
Peddler	1	Students	4
Letter carriers	2	Teachers	6
Printer	1	Linotype operators	2
Salesmen	6	Carpenter	1
Saleswomen	5	Financial manager	1

OCCUPATIONS OF BORROWERS

Christian Science practitioner	1	Chauffeurs	3
Public accountant	1	Lodging house keeper	1
Nurses	4	Produce dealer	1
Prop of employment bureau	1	Compositors	2
Insurance agent	1	Housewives	5
Stenographers	4	Milliner	1
Insurance broker	1	Clerks	7
Laborer	1	Electricians	5
Police officers	2	Truckman	1
Cabinet maker	1	Social service workers	3
Waitresses	2	Railroad engineer	1

PURPOSES

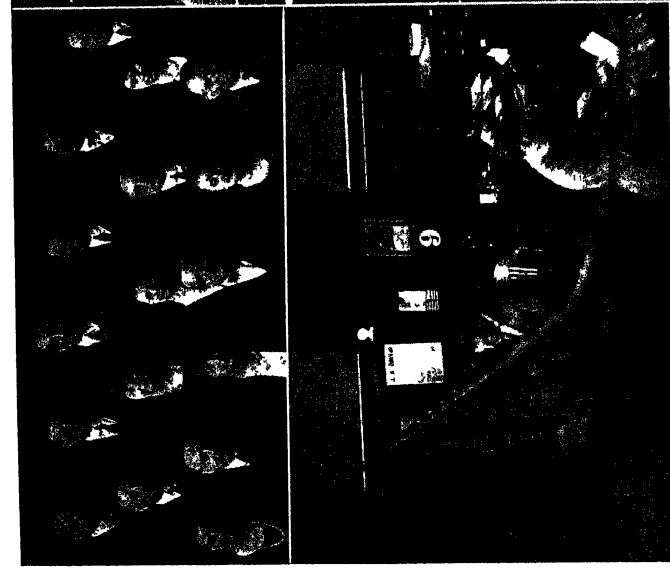
To help in business	16	To buy coal	2
For furniture	2	General living, rent, groceries, etc	16
To pay on mortgage	8	Repairs on real estate	3
Taxes on real estate	1	Medical-dentistry	18
Clothing	12	Repay other loans	6
Educational	2	Investment	2
Insurance	4	Moving expense	4
Death	2		

It may be taken as an established fact that the vast majority of individuals who need credit and are without bank credit not only actually need it but they are deserving of it and seek credit for proper purposes.

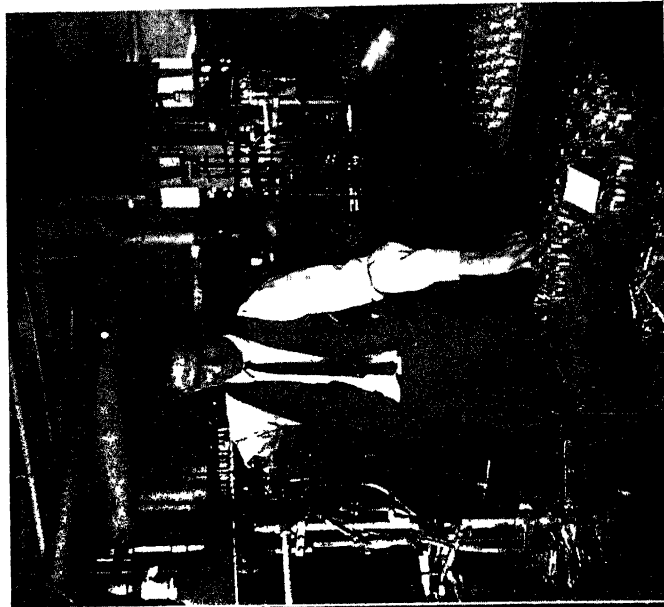
Assuming that the Russell Sage Foundation has performed a remarkable social service through its successful effort to curb rates which have been without limit and practices which have been without scruple—what is the next step?

The Credit Union the Logical Solution

The small loans business is not attractive to invested capital at a less rate than 42 per cent. The small loans business should not be a matter of charity or quasi-charity. The capital, therefore, must come from the same source from which arises the small credit problem. The credit union is such a source.



DIRECTORS MAINE TELEPHONE WORKERS CREDIT
UNION
INTERIOR LA CAISSE POPULAIRE STE MARIE



C P RUSSELL
President Hygrade Credit Union

Having in mind the length of time required to develop the credit union system in an effective way abroad, I feel, as I have said before, that in the United States the credit union system is still in the laboratory. It is for this reason that there has not been nor will there be for some time uniformity in the matter of credit union enactments nor in methods of credit union organization. The best system will evolve from years of experience under varying conditions. I repeat because of its importance—it is not yet appreciated, for example, that a credit union law must contain provisions whereby its possibility of value is brought home effectively to those who would make use of it. A credit union law without such provision is like an automobile with an empty gasoline tank. The locomotive power is necessary before the machinery will operate. Were it possible to induce all state legislatures in a single session to pass credit union laws and provide adequate means of making the laws effectively known, there would be no need of the Uniform Small Loans law. Mr. Ham recognizes this fact in a recent letter in which he expresses his agreement with the writer that the credit union is “the ultimate solution of the whole matter,” in which opinion he is sustained by practically every student and investigator who has given thought to the matter.

Successful Credit Union Experiments

Municipal Employees

And yet, while the credit union development has been slow, disappointingly slow to those who, realizing

the urgency of the problem, would see it solved immediately, yet enough has been done to indicate something of the broader possibilities which will come with a greater and more general application and with a perfected law. Consider a few experimental results: You will recall an earlier reference to the condition among the city employees of the city of Boston in 1918, over a hundred of whom were then in the clutches of loan sharks and paying tribute at an average rate of 180 per cent. A credit union—the City of Boston Employees Credit Union—was organized to relieve this condition in November, 1915, as a result of this investigation. Two years later the Mayor of Boston spoke as follows as regards the then result of this experiment:

“The credit union has been in operation for two years and in that time has made 725 loans, amounting to \$56,608 01. The average loan was \$78, and on these loans a charge for interest was made at the rate of eight per cent per annum. Of the total amount loaned, \$42,642.81 has been repaid and 467 loans paid in full. There are at present outstanding 258 loans, the total balance due thereon being \$14,037.20. The shareholders have been paid dividends at the rate of six per cent per annum, amounting to \$859.67. The guaranty fund amounts to \$970.45 and \$730.72 has been carried as undivided earnings. The losses on loans amount to \$54, or less than one-tenth of one per cent of the total amount loaned. Formerly the city employees were entirely at the mercy of the loan sharks. This condition no longer exists.”

According to the 1921 Report of the Bank Commissioner this credit union has present assets of \$35,877.75 and outstanding loans of \$28,551. It has 958 members

and has completely solved the small loans problems of the city employees of Boston.

The Municipal Credit Union (city employees of the city of New York) has present assets of \$347,720 and outstanding loans of \$338,963. The Federal Employees Credit Union of the city of New York has assets of \$70,374 and loans outstanding of \$56,700.

Consider, for a moment, these three experiments. To begin with we have the fact of appreciable savings. To borrow one must become a member of a credit union. Employees of the city of Boston, who used to pay 180 per cent interest on loans, many of them are members of the credit union with balances and no loans. Bear in mind also that there are no funds in any of these credit unions derived from other sources than the city and Federal employees eligible to membership in them. These folks have solved their own problem in a strictly businesslike way. They represent, in a very fair way, the real solution of the small credit problem. Multiply them by the available groups in the United States and the entire problem is a long way towards final solution.

In a letter dated June 22, 1922, Mayor Curley speaks of the credit union as follows:

"The one agency for combating usury and for the promotion of thrift, whose genuine service and usefulness has been demonstrated for many years, is the credit union. Through the instrumentality of the City of Boston Employees' Credit Union, loans are made at low rates of interest, thrift is encouraged and independence, without the incessant worry, occasioned by the demands of the usurers, is made possible."

Telephone Workers

Now let us turn the spotlight for a moment on the Telephone Workers Credit Union of Massachusetts, with its 6000 members and accumulated assets in five years of \$420,000. It has outstanding loans to members aggregating a quarter of a million dollars. The President and very successful manager of this credit union, Mr. Charles F. Donahoe, says that most of the members would not otherwise have savings accounts. The President of the New England Telephone and Telegraph Company, Mr. Matt B. Jones, says of it:

"The credit union has encouraged thrift and made it possible for its members to borrow needed funds with self-respect and at reasonable rates of interest. I know that in some cases the credit unions have helped employees out of the clutches of loan sharks and I have no doubt that, through their plan of operation, they have prevented others from falling into that unfortunate situation."

Farmers

Compare the "before and after taking" condition of the farmers in Lowe's Grove, North Carolina. It is the best of the rural credit union experiments to date. The Lowe's Grove Credit Union has been operating for six years. Before it was organized the farmers "were doomed to failure under a system that made them vassals of the supply-merchants, who charged them 38 per cent credit for their supplies and dictated as to what they should buy and when they should buy and when they should sell their crops." Six years later the credit union had made loans totaling \$43,000 without

a loss at six per cent, and had made possible a coöperative buying association which has enabled this small group of farmers to buy supplies totaling \$200,000 at a net saving of \$30,000, and the farmers were doing business on a cash basis.

These illustrations simply show what can be done. Admittedly they are of the best class of credit union organization, but do they not indicate that the credit union theory is sound and that the credit union, under average conditions, properly organized and managed, can grapple with the problem of usury and give it a beating?

In General

I have available data from practically every Massachusetts credit union showing how individually they have met the problem and I am convinced that the credit union is the David to slay this particular Goliath. The difficulty is that Goliath is not an individual in this case, doing battle on a single field of combat. His next of kin, comrades in arms and business partners are a legion and they do business everywhere and the problem is to produce enough Davids to clean up the whole Goliath family.

The Collective Value of Credit Union Loans

Fortunately some evidence is available as to the collective value of the credit union in this connection. In 1921 and again this year the Russell Sage Foundation attempted to amend the Massachusetts small loans law by increasing the limitation rate from 3 to 3½ per cent. This effort was based on a conten-

tion that a decrease in the number of licensed money lenders in the state, coupled with evidence that some of them were doing business at a loss, indicated that the rate was too low to keep the business attractive for the class of small lenders who would be responsive to law if the rate permitted a legitimate profit. It was pointed out that the number of small licensed money lenders had decreased from 157 to 59 between 1915 and 1920 and that the capital invested in the small loans business had decreased in that period from \$7,842,202 to \$1,847,341. It was deducted from further evidence that the small lenders were not making money, that this decrease represented a probable increase in "boot-legging" in the business at rates of interest which were very high in comparison with the Massachusetts legal rate of 36 per cent. The credit unions opposed the increase both years and neither bill was reported out of the Committee. While in complete sympathy with the work of the Foundation, I opposed the bills because I did not believe that the Uniform Small Loans Law, in its present form, would help us any in Massachusetts. I feel that in this state the issue is drawn between the small money lender and the credit union and that the outcome of the issue between them is not only important within the state, but that it has national importance as well.

It was not pointed out at either hearing that any small money lenders had failed either year and part of the evidence submitted for the bills admitted that some of them made money, despite the 36 per cent limitation. The contention that "boot-legging" in the business was encouraged by the 36 per cent rate and

that an additional half of one per cent would make the business so attractive that there would be no illegal operations if the amendment were made, did not seem, on its face, very reasonable. The Massachusetts law provides for a Supervisor of Small Loans Agencies and for registration and regulation. Surely so much of the Uniform Small Loans Bill is not necessarily of itself effective if it is argued that there can be no effective regulation unless a 42 per cent rate is attached:

It is our feeling, however, in Massachusetts, that the increase in credit union loans from a half million to three and a half million dollars, in the period under discussion, and this year to four million dollars, must, in part measure, at least, have a bearing on the subject. It is not contended that the two facts—the decrease in the number of small money lenders and the increase in credit union loans—have necessarily a perfect association. Many credit union loans are for purposes other than relief from usury—general economic conditions probably have something to do with every economic problem—but there is the fact in Massachusetts that credit union loans are rapidly increasing in annual total, while the small money lenders decrease in number and in total capital invested in their businesses. There probably is some association between the two.

A Possible Final Solution

It has been said, as has already been quoted, that Massachusetts needs 1500 credit unions in order that the state may be adequately covered. This would mean a tenfold increase in assets available for small

loans, bringing the total from four to forty millions. Is it unreasonable to suppose that the small loans problem will be completely solved in the state when this logical development has been attained and, if such result will follow in a single state, is it any less unreasonable to suppose that a national extension of credit union service would, in large measure, solve the problem of usury in the United States?

CHAPTER VIII

NEWLY ACCUMULATED CAPITAL AND THE CREDIT UNION

There are at least two ways whereby the capital resources of the people of the United States could be materially increased. The first way involves diverting into legitimate channels the millions of small savings now annually wasted in "wild cat" speculation. The second has to do with accumulating and making useful the hidden and hoarded savings of the people.

To accomplish either of these purposes is, of course, recognized to be a long job and their accomplishment involves necessarily some fundamental plan which can be worked out in steady and uniform fashion throughout the years of this generation and the generations to come. Both purposes can be accomplished by education. The speculator needs a certain type of education. His psychology indicates that he can be dissuaded from wasting his savings only by the substitution of some method of investment which satisfies his perfectly normal and legitimate desire to get as large return on his savings as possible. He will not be diverted by postal savings at two or two and a half per cent. The savings bank plan of security plus a modest return does not particularly interest him.

On the other hand, just as the speculator is an

extreme radical in his conception of the amount of work reasonably to be expected from savings, the hoarder is an ultra conservative who leans over the other way. He keeps his savings under the mattress. This sort of saver must be educated to appreciate that, if he spent all his time on the top of the mattress he would have no savings beneath the mattress, and that the same reason that he works—in order that he may earn—applies to his savings. They should work so that they may earn. He must be taught confidence in our institutions.

This chapter has to do with these conditions and with the possible service of the credit union as an educator—to build up the conservatism of the speculator and to develop the faith of the hoarder. The chapter involves, therefore, not only some brief study of the underlying reasons which account for wasted savings and for “talents of silver buried in the ground” but points out some of the ways in which newly accumulated capital may be most wisely and profitably used for the benefit of those who accumulate it. The credit union again concerns itself with this problem because, in a normal credit union group, the accumulation of capital at some time exceeds the remedial loans requirements of the members, whereupon the problem of the wisest investment of surplus becomes immediately important. The original credit union purpose did not see much further than the remedial loans problem and the early Massachusetts credit union literature has much to say about the usurer, his evil practices and the problem of his elimination. This problem of usury is still of major importance but

of constantly increasing importance is the question—what shall the credit union do with assets not required to satisfy the credit requirements of members?

Assuming a general agreement that there should exist a margin between income and out-go, no one, not engaged directly in the business of separating the individual from his savings without adequate exchange in value, would question a further assumption that this margin should be profitably invested; that it should be safeguarded from swindlers, and that, while it should be conservatively managed, it should work as effectively as possible for the individual who created it. The association of the credit union with this problem may seem, on first examination, a bit far-fetched. Such association has to do more with the possible future development of credit unions on a broad and comprehensive scale, but it is the purpose of this book, not so much to recount an achievement as to point out the possible value of an agency of service which is now developing along sufficiently broad experimental lines so that something of its potential value is already apparent. The credit union is, as has already been said, in the laboratory and only enough progress has been made to indicate something of the possible development of a formula or plan which, eventually, may be generally applied throughout the United States. The "Report of Progress" is favorable.

We come then first to some brief study of who creates a margin between income and living cost, particularly of those whose margin, because it is wasted or hoarded, adds nothing to the available working capital of the people of the United States.

Who Creates a Margin?

We are concerned with three types of savers—the conservative, the radical and the hoarder; and, primarily, with the two latter.

The Conservative

The conservative is generally prudent, patient and possessed of some forethought and not bothered with super-imagination. He has the good sense to save and finds existing agencies, which combine a high degree of security with a modest interest return, adequate. Within this general classification may be found the millions of depositors in savings banks. No disinterested education in investments or in the management of money accompanies their association with banks for the most part. Recently in Massachusetts some savings banks have begun to give free advice by experts in the matter of home budgets, which is some evidence of the recognition of the necessity for education for the small saver through the banks. So long as this type of saver makes wise use of his savings this book does not particularly concern him. Unfortunately it is doubtless true that a substantial part of the money lost in "wild cat" speculation is first patiently accumulated in the savings banks and the problem of educating the small saver in the effective use of his savings applies, probably, to a very considerable proportion of all savers.

On the other hand the majority of such savings as are above described are probably utilized by the depositors to start legitimate businesses, to build homes

and for other worthwhile purposes, while much of it is simply savings against old age and the proverbial rainy day.

The Radical

Within the second classification we find the individual normally inclined to "take a chance," the imaginative, credulous person who wants his money to "work and work quick." He is not content with a return of four or five per cent a year. His head is full of quick riches. He thinks along lines that make him an easy victim of the slick salesman of worthless stock. He is the natural product of a new country where great publicity is given to sudden wealth and particularly to large fortunes resulting quickly from small beginnings. He doesn't understand the underlying principles of success, nor is he even well informed in the law of chance. The salesman says to him: "Buy 'Star of the Universe Oil' stock. Look at Rockefeller." The victim is satisfied to look no further than Mr. Rockefeller's well advertised success. If he did look further he would ask the salesman, among a few hundred other questions, "Just who, in your company, is going to impersonate Rockefeller? Satisfy me first that he can duplicate Rockefeller's success and then prove to me that such duplication is now economically possible."

In a little book of verses for children, published by the Atlantic Monthly Company, entitled, "Jane, Joseph and John," by Ralph Bergengren, I came across recently a little poem which the author calls "The Bank" and which explains much of the difficulty of the small saver and, when analyzed a bit and applied to

grown-ups, discloses something of the basic psychology of the individual who spends his earnings or wastes them because dissatisfied with the possible returns on existing methods of legitimate investment of small savings.

The Bank

In my tin bank I put a dime,
And left it there for quite a time.
I let it stay a month, about,
And shook my bank 'till it fell out.
But when it fell upon the floor,
It was a dime—and nothing more.
I thought, from what I heard Pop say
It would increase from day to day.
My dime would be a kind of hen,
And lay a penny now and then.
But when I found my bank would add
Nothing at all to what I had,
I simply wasted no more time,
But went right off and spent my dime.

A Few Examples

One or two ordinary cases of this type of speculation and a few extreme cases illustrate to what extent capital is thus diverted from legitimate use. The first two cases, quoted from the Bank Letter issued by the National City Bank of New York for October, 1920, are relatively conservative in that the loss to investors may not have been a total loss. The first describes the experiences of a company organized for meat packing in Iowa and, at the time of the letter, in the hands of the Courts. Stock was sold to thousands of subscribers, totaling almost eight and a half million dol-

lars upon which the cash received approximated six and a quarter million dollars. The "promotion expenses" were two and a half million dollars, salaries over a hundred thousand dollars and organization expenses, travel and office expenses in proportion and the operation loss up to the time of closing over two hundred thousand dollars. The other company cited had not advanced beyond a set of blueprints. Subscriptions totaled four million dollars and the organization expenses were on a proportionate scale.

The arguments which sold the stock were the old arguments—certain packing houses had made certain individuals rich. This packing house would make the subscribers to its stock rich.

At about the same time a motor company promotion was investigated by the Federal Trade Commission. Stock was sold to 54,000 people, a total of \$4,723,811 being realized from the sale. Of this total amount salesmen's commissions took almost a million and a quarter dollars. The boss promoter got \$650,000 for his trouble. A half million dollars went for advertising. Nearly half the receipts were thus expended in "getting the money." Again the appeal was based on the psychological reaction to the argument that Henry Ford and others had made great fortunes in the automobile business.

Commenting on this situation the letter says: "Society is harassed on all sides by these promoters of various types who are either out-and-out frauds or do not know what they are talking about. Neither legitimate business nor social progress are forwarded by these methods."

An Extreme Illustration

I was in Boston during the hectic days when Mr. Ponzi was at the top of his operations. It will be recalled that it was his plan to accept sums for investment, giving the investor a relatively short term note for fifty per cent above the amount invested, Mr. Ponzi claiming that he was able to do this by investing in foreign postal coupons bought with depreciated foreign currency and sold for the United States equivalent of the par normal value of the foreign exchange. As a result of publicity given to his plan his offices in School Street were literally stormed with investors, it being necessary to call out mounted police to regulate the congestion, while thousands of people, many of whom had withdrawn their money from banks for the purpose, poured their money into Mr. Ponzi's coffers. It came in so fast that it could hardly be counted and was piled in baskets for later deposit. While the crowds were largely recruited from Mr. Ponzi's fellow countrymen in the North End, there were many others in the list of eager depositors—clerks, teachers, wage workers, folks with small savings bewitched by the promise of large and quick returns on small investment. In a single day the receipts exceeded a million dollars and, in all, Mr. Ponzi took from the people of Boston and vicinity a total of \$9,582,591.82. It will be recalled that the people were so credulous that, for some time, no voice was raised against Mr. Ponzi and that the *Boston Post* received the Pulitzer prize for the most courageous and greatest

single journalistic service of the year by finally exposing him.

A Sample of Psychological Appeal

As this is being written suit for fourteen million dollars has been entered, through the agency of the Legal Aid Society of Boston, against a promotor who sold his plan of investment to some sixty thousand people.

A Boston newspaper has published the following as an abstract which it alleges was taken from a book of instructions which, it is further alleged, was issued to salesmen to assist them in the disposition of stock.

"The following estimates are based on increasing the working capital until the assets of the corporation equal par for all outstanding preferred and common stock, plus a twenty per cent surplus, by reserving all net earnings above that necessary to pay a seven per cent dividend on both preferred and common. The seven per cent dividend will be paid semi-annually. Those familiar with credits will not doubt the ability of a corporation of A-1 standing to do an annual business of at least two and a half times its paid in capital and surplus. Average gross annual percentage of profit is estimated at forty per cent. Cost and expense of conducting the business is estimated at five per cent. It is planned that the preferred stock will participate twenty-five per cent and the common stock will participate seventy-five per cent in the net earnings above seven per cent on all stock."

"It is estimated that the above will be accomplished in three years after the subscriptions of the \$3,000,000 preferred stock are paid in when the results should be as follows:—

Amount of preferred stock	\$3,000,000	
“ “ common stock	2,000,000	
Total paid in stock	\$5,000,000	
Plus 20% in surplus	1,000,000	
Making a total working capital of . .	\$6,000,000	
Multiply by 2½ estimated volume possible business . .		\$15,000,000
Multiply by gross profits 40% annual net earnings		6,000,000
Deduct operating cost, 5% on \$15,000,000.		750,000
Annual net earnings		5,250,000
Distributed 7% regular dividend preferred . .	210,000	
“ 7% “ “ common . .	140,000	
40 83% extra dividend on preferred . .	1,225,000	
183.75% “ “ “ common	3,675,000	5,250,000

It is a rather safe assumption that the salesman lingered longest on the 183.75 per cent extra dividend and that the purchaser was not encouraged to dwell at too great length on the assumptions involved.

A flyer issued at about the same time shows, in most interesting fashion, how three shares of stock, costing \$130 would, in a relatively short time, grow to be worth \$3182.50, an increase in value of 2448 per cent. This does not illustrate the extreme case as the stock of the company has a present value, although it is very much less than the par value of \$100 a share.

Sales of Completely Worthless Securities

Advancing a step further we have completely worthless and fraudulent securities, oil company floatations without any oil wells and silver mines that produce no silver. The Capital Issues Committee of the Federal Reserve Board fixes as conservative an estimate of a half billion dollars as the amount of worthless and fraudulent securities sold annually to the American people. And, unfortunately, very much of this rep-

resents small savings or the investment of the entire margin of the individual investor.

One Way It Is Done

A short while ago a man who is quite a leader among his fellow workers in the school system of one of our larger cities showed me, with great pride, a letter which he had received from the "home office" of a mining company of most imposing name. The letter read that my friend had "been selected" to act as agent for the company to conduct a selling campaign of the stock of the company among school teachers and other school employees. He was quite pleased to think that such confidence had been imposed in him. He was, with difficulty, dissuaded from lending his good name to the enterprise and was very thankful that his own hands were clean when it later developed that those among his friends who bought the stock had been swindled.

Typical Letters from Victims

The one thing above all others necessary to check the waste of small savings in speculation is education—education by banks and by any and all other sources which can reach the masses of the people. *Collier's* is contributing much valuable publicity on the subject. In a recent issue five typical letters were published which had been received from victims of stock swindlers. It is interesting to note that they were from five different states and that the east, south, middle and far west were all represented. One was from an unmarried school teacher, another from a

woman with an office job, a third from an ex-service man who had "found a small job" and started life over with a few hundred dollars in savings, the fourth from a man who taught school "at \$56 per month" and the fifth failed to give his occupation. The following extracts are from the letters:

"I am a woman, unmarried, have been teaching school for twenty-nine years, and my name is on every 'sucker' list in the United States. I have been skimping on food and clothing and paying out my hard earned money until my room is filled with stock certificates. I listened to the talk of the glib-tongued salesman with the 'sure thing' where I could make from 15 to 500 per cent profit and went without needed clothing. It has taken a lifetime to learn that there is a vast difference between investment and speculation."

The second letter says:

"Have the fake stock swindlers swindled me? To the tune of \$8000 in the past few years. Their promises were: 'Make your dollars work for you'—'Get rich in a month'—'Look what a \$100 invested in the Ford Company would have brought you in a few years ago.' 'If I had money again I would invest it in gilt-edge bonds. I must be on every sucker list in the United States.'"

The office woman writes:

"The vision of speedy relief from daily toil is especially alluring and at this psychological moment enters the swindler. I lost \$3000 by an oil stock swindle."

The following is quoted from a Kentucky letter:

"To save the thousand I taught school at \$56 per month I tutored, painted, and slaved in a hundred ways. I went

shabby. I denied myself the commonest pleasures. And then I handed it over to a bunch of swindlers."

The story of the ex-service man:

"I am human and I am one of the class of toilers of less than middle age. I served with Uncle Sam's army on the front and was wounded at Château-Thierry. Immediately upon my discharge I found a small job and felt that I could battle the wolf a bit with my few hundreds tucked away. But no—the bait of chance with possible big gains was presented by one of my best friends, whom I trusted . . . but our argument is to deny our wants until we pass over the shoal bed so disastrously precipitated by our membership in the gang that is not content with four, six and eight per cent."

The Massachusetts Investigating Commission

After the Ponzi bubble burst in Boston in 1920 the legislature authorized the appointment of a Commission "to investigate the sale of corporate securities and related matters." This Commission, consisting of the Attorney General of the state, the Commissioner of Corporations, and Samuel Spring, Esq., an attorney of Boston, conducted a careful investigation and filed its Report with the legislature in 1921, as House Document 1175. A few extracts from this Report indicate something of the extent and nature of this problem. For example:

Who Invest in Worthless Stock?

"Some people are of the impression that all those who buy fraudulent securities are at heart either gamblers or speculators or more or less hopeless dupes. It is true that,

in some cases, people who buy fraudulent securities take chances deliberately with their eyes open, lured by the hope of extraordinary profits: but such gamblers are unquestionably in the minority. Not only in the Ponzi fraud but in the sale of many other fraudulent securities, agents have used friendship, religion and fraternal ties as a means of approach . . . the victims, uninformed, with no knowledge of where to obtain true information, trust their friends and yield to plausible arguments."

The Waste of Capital

"Capital for investment is essential. There is a shortage of such capital, not only in New England but throughout the United States. Capital can be created only by savings and thrift. It is of the utmost importance that the wage workers should save a part of their earnings in order that they may be available for investment in profitable enterprises which, in turn, will create new opportunities for employment. Thrift is essential for the creation of capital and the impulse of the people to save must be jealously guarded and encouraged."

The Effect of Loss from Worthless Investments

"There can be no greater deterrent to thrift than to have people who invest their earnings in securities find that these securities are worthless and that their money has been lost."

The Results of "Wild-cat" Speculation

"The situation has become intolerable. The confidence of the people is shaken—their natural instinct to thrift is chilled and their loss of savings brings tragedy and sorrow. The promotor spreads his net, gathers his victim, and departs leaving behind a trail of misery, a growing spirit of

distrust of our economic and governmental structures and a new field prepared for the agitator to sow the seed of radicalism and unrest."

Sir Charles Napier once said:

"As to government, all discontent springs from unjust treatment. Idiots talk of agitators, there is but one in existence and that is injustice. The cure for discontent is to find out where the shoe pinches and ease it."

Believing in the theory of democracy and the possible perfection of the theory in practice, it seems to me that every condition which makes for unrest, for dissatisfaction and misunderstanding within any considerable element of the population provides effective munitions for those who would destroy democracy. The loss of savings creates a dissatisfaction with existing things. Usury, too, never made a better citizen of either usurer or victim. Thrift is essential to the development of national greatness. That the credit union may be interested in these things makes it an available asset to assist in the preservation and perfection of democracy.

Before examining in detail the fitness of the credit union to deal with these problems let us consider briefly a third class of individuals who do not spend to live all they earn.

The Credit Union and Hoarded Savings

It is estimated by economists that from two to three billion dollars are hoarded in America in the form of gold and silver coin and paper currency, where it remains useless. This has been called the "stockings

savings" of the people and such money, lying idle, serves no useful purpose. It is said that, at one time in France, the government caused to be passed a law depreciating the value of all coins prior to a certain date, in order to drive out the hidden savings of the people and that, immediately, vast sums were returned to circulation. As will be further indicated later in the chapter it is quite possible that the credit union may be of value to accumulate and make available for use this large dormant capital.

There remain for discussion two phases of the subject—how is the credit union adapted to service to (a) divert wasted savings into legitimate channels and (b) to accumulate the "stockings savings" of the people: and, once a credit union has accumulated new capital—how does it make the new capital work most effectively for the accumulators.

Of what value, theoretically, is the credit union in this matter? To begin with, as has already been stated, it is the opinion of those who have had experience with credit union organizations, either as bank commissioners, credit union managers, executives of plants in which credit unions operate, etc., that the credit unions "make savers" of individuals who had not hitherto had savings accounts. How appreciable this may be has already been indicated in detail by statistical information quoted in various preceding chapters.

In the North End

I am watching with great interest an experiment now being conducted in the Italian North End of

Boston. This district is inhabited largely by people of Italian birth and parentage. As has already been indicated they lost heavily through their dealings with Mr. Ponzi. He was a fellow countryman and held out large inducements of heavy return on small investments. For some time his dealings were not questioned and naturally his fellow countrymen flocked to him and, when the crash came, not only did they lose their savings but they lost their confidence in investments. On top of this experience, several banks were closed by the Bank Commissioner, tying up millions of savings and, unfortunately, these banks were, for the most part, of the type specializing in the sort of accounts which originate within the foreign population. One of the banks had a branch in the North End and they were all located conveniently to it. How badly off these banks were is indicated by the fact that it was months before some of them paid even a small dividend. Again the people of the North End were shocked—this time to find their faith in banks gone. It is generally admitted that these people now feel that the only safe depository for their savings is some place of concealment either at home or on the person. A small credit union has been organized in the North Bennett Street Industrial School, a social settlement house, located in the very heart of the North End. It is being managed by Joseph Campana, a young man of Italian birth who is a 100 per cent American citizen. He understands the problems of the District and, while his credit union is as yet very small, he has a very large purpose in view—to build up an institution in the District managed by the people and for them in a safe,

conservative way which will earn their confidence by deserving it.

The Credit Union One of Many Agencies

It is not to be presumed that the credit union can do more than contribute to the solution of the problems involved in hoarded and wasted savings. As has been previously said these difficulties must be overcome primarily by education. This education should come logically from the banking system. *The Saturday Evening Post* is, as this is being written, contributing considerable valuable information on the subject and other sources of national publicity help from time to time. It has seemed to me however that, from the viewpoint of the small saver, he needs from the bank three things—security, service and education. In the main he has received security. The essential thing is to educate banks to add to security, service and education and to supplement the banking system by some plan which will accumulate vast quantities of individually small savings. So long as banks assume the responsibility of custody and investment of savings, banks have the additional responsibility, it seems to me, to assist their depositors to make wise use of their money and the system should be so complete that the saver of smallest capacity for saving could have a place in it where his savings, his investments, and his problems of credit receive intelligent and sympathetic consideration.

Is the Credit Union Such a Supplement?

Obviously banks must operate at a profit. Ordinary commercial banks cannot deal in the smallest problems of savings and credit except at a loss. The Canadian figures will be recalled—loans of a dollar and less and the majority of them very small. The credit union plan of savings which may not exceed ten cents a week and average twenty-five cents—indicates how very special is the problem and how difficult it would be to work it out through ordinary bank channels. On the other hand, the credit union does its business—the aggregate of its small savings which may be relatively large—through a bank, thereby bringing to the bank large totals of individually small amounts, which, individually, the bank could not handle at a profit.

Something of this fact is recognized in a pamphlet issued by the Georgia Bankers Association in support of a credit union bill pending before the Georgia Legislature. While this discussion has to do with a bill primarily designed to bring the credit union to small farmers it has a most interesting bearing on various phases of the whole subject. The following quotations are from the pamphlet which is entitled "The Credit Union."

"The drift towards paternalism in many schemes and devices which have been proposed to help the farmer, should be carefully checked and guarded against. The government has broad shoulders and the tendency is to heap the burdens upon them. The desire to do something spectacular for the farmer springs eternal in the political breast. In the frenzied whirl for the past two or three years, we have over-

looked in our excitement an agency for self-help which deserves more attention and more encouragement. This agency is the credit union which helps the farmer to help himself. *Better still it teaches the principles of banking to a class of people in whose lives heretofore banking has meant less than nothing. It literally creates two depositors where none had existed before* that is two classes of depositors. The credit union is itself a depositor and a borrower, while the members of the union soon outgrow it in a banking sense and become desirable and profitable customers to commercial banks.

"It commends itself to banking judgment as an excellent but neglected method of creating new depositors from the ranks of those who have no banking affiliations.

"Coöperative credit associations, and particularly those in rural districts in need of better credit facilities, are agencies supplementary to the commercial banks, rather than competitors. Many far-sighted and constructive country bankers fully recognize this fact, and have not only co-operated with unions but have taken the initiative in the organization of unions in nearby territory. These bankers recognize that it is more advantageous to lend a substantial amount at a relatively low rate of interest to an organized group of farmers, where the risk has been largely eliminated, than to lend individual farmers small sums at higher rates where there may be a considerable element of risk. Furthermore, these associations gather up the small savings of persons who were not bank customers and make local banks their depositors, whenever funds in excess of the demand for loans happen to be on hand. Finally, progressive bankers fully realize that their own business can attain marked growth only with the increase in the general prosperity of the community in which they operate, and that

to promote prosperity most effectively it is necessary to have the money and credit which they control reach those members of the community who are in greatest need of credit and whose productive powers will be most enhanced by the use of additional capital."

The European Evidence as Regards the Accumulation of New Capital

We have the European evidence which has a material bearing on this phase of the subject. No reliable statistics have been available since the war, although such data as has come to hand indicate that the co-operative banking systems of various parts of Europe have come through the period of economic disaster much better than could be reasonably expected. It will be recalled that, prior to the war, the Report of the United States Investigating Commission called attention to the fact that the German credit unions were doing an annual business of five billion dollars—that six hundred and ninety similar institutions in Italy had a working capital of over one hundred and seventy million dollars and that six thousand credit unions in Austria, with a membership of three quarters of a million, had outstanding loans of over eighty-six million dollars. It is the testimony of all those who have investigated the subject that the accumulations in credit unions represent savings which would not have been made except for the credit union plan—that the credit unions are making "new savers" and that their accumulations are additions to the capital resources of the people.

Why Should the Theory Work?

The credit union is a little bank within a group. The group have some previous coöperative sense of union. The members know each other. The credit union is managed and controlled by the group. The members know it to be their bank—their legitimate source of credit. They know that they will share in the earnings. They know that the credit union is annually examined by some state authority—that it has the safeguards of the Supervisory Committee and the many provisions of the law which have to do with making their deposits secure. There is contained in the plan the normal psychological response to the man who wants to know what his money is doing—who wants service and who wants a fair return. It appeals to the timid man—because he knows so much about it that he can build up his own faith. The relationship is so personal that there is an unavoidable point of educational contact. I have had occasion to sit in with credit committees. They not only pass on an application for a loan from the viewpoint of the probability of repayment. They must consider the purpose and the net result is that there is discussion and coöperation in making the purpose worth while. The amazing record of the credit unions for honest and efficient management, the familiarity of the members of the group with each other, the esprit de corps of the organization—all make for assurance. It is the type of appeal which the timid will listen to and which is apt. to find response in the individual who wants to know that his money is working effectively for him, as his

reward for having accumulated it. He hasn't lost contact with his savings.

There is then a really big job waiting for the credit union—to help accumulate the dormant capital of the people and put it to work.

Something of the service which the credit unions will eventually render is indicated by the progress which has been made by the building and loan associations in the United States and no discussion of coöperative banking or the effective use of newly accumulated capital would be complete without some reference to the extraordinary service which the associations of this character are now rendering in the United States. I have already pointed out that the present membership is over five million—the present total assets nearly three billion dollars and the rate of increase particularly rapid in recent years. Again it is interesting to note how extensive is this development in Massachusetts because Massachusetts, despite the fact that the state has within its relatively small territory the largest individual proportion of savings bank accumulations, has taken the lead in credit union development, at the same time having a splendid system of coöperative banks or building and loan associations, all under the supervision of the State Commissioner of Banks. In Massachusetts, according to the 1921 Report of the Commissioner, banks of this character have assets of \$196,195,048.71, an increase in a single year of more than twenty-two million dollars. As building and loan association assets are invested primarily in real estate mortgages it is not surprising to find total investments of this character in Massachusetts of better

than one hundred and eighty-one million dollars to 77,582 borrowers. The service of helping individuals to build or buy homes is the highly specialized business of the building and loan associations. This is the finest type of investment for the wage worker and the small saver and the value of the service of the building and loan associations cannot be over-estimated.

In Massachusetts these banks take another step and make what are known as share loans, against share holdings as security, the outstanding loans of this character October 31, 1921, totaling \$5,782,202.60.

Compared with Credit Unions

Building and loan associations and credit unions recognize certain principles in common. They promote thrift through a share plan, shares being payable in installments. They capitalize the possibility of making a habit of the business of saving. They invest in the sort of investments designed to be of greatest value to the member—in the building and loan associations, as has been indicated in homes and, to some extent in share loans—in the credit unions in a more general way in “any loan which promises to be of benefit to the borrower.” Both, as has been pointed out, are managed in democratic fashion with a minimum overhead expense.

As the Bank Commissioner of Massachusetts has, however, indicated, they are in no sense competitive. The points of difference are quite fundamental. The credit union can operate within a very small group. The most successful credit unions are organized within large and small industrial units and all of them have

limitations on their membership. The building and loan association must, in order to have sufficiently appreciable assets to enable it to do effective work, attract a considerable membership. Its funds are used primarily for real estate mortgages and the average loan would of necessity be large in comparison with credit union loans. The credit union also generally operates on a weekly basis, with a much smaller installment unit of share payments. The credit union also specializes in the small loans field, just as the building and loan associations specialize in real estate mortgages. The purposes of credit union loans are of almost infinite variety, the sorts of security equally diverse. The building and loan is interested primarily in but two kinds of security—real estate mortgages and assignments of shares.

Home Investments

Each approaches a different general problem and both are necessary. There are other points of difference but enough possibly has been indicated to show in what way they serve the same purpose and how each specializes in its particular field. Before leaving the building and loan association this should be said of it. There can be no more sane investment of newly accumulated capital by the rent payer—the head of a family—the individual upon whose effort the progress and direction of a family depends—than in the acquisition of a home of his own. The man who is buying a home is, in the process, building up his own self-respect and adding to his community value.

Paying taxes is the surest way to make a man under-

stand something of the business of the government. While it is often said that real estate taxes come eventually out of the rent payers the fact of an increasing tax rate comes home so acutely to the home owner that he quickly realizes that he must take greater interest in the life of his community if from no higher motive than one of self-protection. An increasing tax rate is a compelling argument.

I was Commissioner of Finance for three years in a city of a hundred thousand people and had rather an exceptional opportunity to study the psychology of the taxpayer. Waste—extravagance—incompetence—graft—all become practical rather than academic questions when the citizen gets the reaction in his tax bill. After some years of intimate association with the problem of financing the business of a typical American city I reached this conclusion. Some method will be eventually devised for transforming the great business of our cities from a past-time of self-serving and incompetent politicians to the real business of trained and honest administrators and that the one thing which will hasten the coming of that happy day will be the revolt of those who pay the bills against the further exploitation of their own neglect. We will be much nearer the millennium when we have demonstrated that a free people can conduct their common affairs with a fair degree of honesty and a moderate amount of efficiency.

The Primary Investment Value

The credit union's possible value in connection with the diversion of savings from "wild cat" speculation to

sane investment is primarily in the fascinating variety of service which the credit union may render because of its broad power to "make loans for provident purposes."

The Type of Rural Credit Union Investment

In the rural credit unions enough has been said to indicate that small accumulations of new capital may be made and that these accumulations can be used to promote coöperative buying—to enable the small farmer to put his business on a cash basis and to pay large dividends—not in money—but in savings and service. If a credit union loan enables the borrower to save from 20 to 30 per cent on something which he must use it is not difficult to make the individual affected understand the desirability of credit union membership. There is also another national rural problem which requires newly accumulated capital for its solution.

Farm Tenants vs. Farm Owners

Some means must be devised whereby the tendency towards an increase in farm tenancy and a proportionate decrease in individual farm ownership may be checked. This is so large a problem that it can only be briefly and not authoritatively discussed in this book. The credit union is not, necessarily, the solution of it. Enough credit union loans have been made to assist in the attainment of this result in the relatively few rural credit unions now operating to indicate the possibility of value of credit union extension as a factor in the situation.

How Acute Is This Problem?

"Our theory," writes Professor Boyle, "of a sound agriculture has quite generally been that every man should own his own vine and fig tree. And this happy condition actually existed for a short time at the beginning of our great Republic. But we are now departing from it. And the strange thing of the situation is that our powerful neighbor, Canada, forming with us an ethnological and economic unit, is moving in the opposite direction. Renters are few in Canada and getting fewer. Renters are many in the United States and are fast becoming the majority of occupiers of farms as indicated in the following table:

CANADA		UNITED STATES	
<i>Year</i>	<i>Per Cent Renters</i>	<i>Year</i>	<i>Per Cent Renters</i>
1891	15.42	1880	25.6
1901	12.90	1890	28.4
1911	11.40	1900	35.3
		1910	37.0

Quoting further:

"The fact is well established that tenant farming is increasing in the United States. In a few counties it exceeds ninety per cent of all farms. The question naturally presents itself—what will be the social and economic significance of an increase in farm tenancy?"

One Survey, speaking of northwestern Ohio, said:

"Tenancy may not be a curse to agriculture and country life but under the system of land tenure prevalent throughout the United States it usually is."

Further:

"In the section covered by this Report the average length of time a tenant stays upon the same farm is two and a half years. This makes not only for frequent removals but

How Can This Tendency Be Checked?

One way it can be checked is by the accumulation of new capital made available for tenant farmers so that they may borrow in order to buy farms. Quoting from a survey of Montgomery County, Maryland:

"The obvious solution would be along the lines of aiding the present operator to obtain ownership of the land. In Europe—and to a lesser extent in some parts of the United States this need is met by an ably managed and extensive system of coöperative banking "

The situation in Maryland has somewhat improved since the report was written. In a letter from F. B. Bomberger, Assistant Director of the Division of Extension stationed at College Park, Maryland, the following additional information is contained—that while there were 15,447 farms occupied by tenants in Maryland in 1900, in 1920 there were but 13,841 such farms. Mr. Bomberger, who is conducting a most earnest campaign to secure credit union legislation in Maryland, concludes that "there is now no alarming increase in the number of farm tenants in the state" and that there are certain types of farm tenancy which work well.

"With regards to the question as to whether the credit union would be of value as a means of aiding tenant farmers in their efforts to secure their own farms," writes Mr. Bomberger, "I believe there can be no question that an adequate system of credit unions would be of value in this regard. I think the advantage that would accrue to the tenants would come through the coöperation which the credit union would permit whereby each individual would have the ad-

vantage in part at least of the collective credit of the members."

"Means must be found," says the Agricultural Commission of the American Bankers Association, by which the industrious young farmer of character and skill in agriculture can look forward to becoming a farm owner."

Obviously here is another job waiting to be done. Having the North Carolina rural credit union experience in mind, there is a possibility that a general system of rural credit unions might accumulate new capital sufficient in amount to make a real impression upon it.

If there were a Lowe's Grove Credit Union organized within every group of sixty small farmers it would not be difficult to check the tendency to farm tenancy.

How Credit Union Development Can Be Accelerated

If by some chance these lines should ever come to the attention of some man of wealth who is anxious to make his money do effective social and economic service, I hope that he will agree with me that the elimination of usury is such a service,—that the promotion of thrift and coöperative buying, that freeing the farm tenant from the bondage of the crop lien system and making it possible to own his own farm, that helping men to understand how effectively to help themselves, that getting out available for use the vast accumulation of hidden and inactive savings, that saving the small saver from throwing his savings away, that trying to make the American people a thrifty rather than thriftless people—all things, directly or remotely, ex-

clusively or in part measure concerned with credit union development are worth while. If some such man would, to-day, put a properly trained credit union organizer in all the present credit union states and in new states as credit union laws are enacted, he would be working for the perfection and perpetuation of democracy. There is enough money expended in a single afternoon's enjoyment in the Harvard Stadium, when the major football games are on, to make credit union laws effectively useful in states where there are now laws which are inoperative because of ignorance of the fact of such laws on the part of those who would most benefit by their use.

The Development Will Come

Such dreaming is the normal result of impatience. Credit union development, like all fundamentally worth-while things, will come in time. It will not come easily. There is a peculiar legislative psychology which must be taken philosophically. Problems which seem of great importance do not seem to unduly disturb members of a legislature who will get much involved and spend many legislative days seriously winding themselves up in parliamentary red tape over some matter which does not seem to the average citizen on the outside of any great importance and then spend even more days getting unwound. There will be general credit union legislation when legislatures understand how vitally valuable the credit union is to voters, for, after all, voters, when thoroughly aroused and informed, can get the sort of legislation they need and want if they go about it with sufficient earnestness.

Conservative Investments

Will the credit unions eventually add considerable amounts to the working capital of the United States, as represented by conservative investments? I have this morning received the most recent monthly statement of the Skandia Credit Union of Worcester. The Credit Union, during the past month, passed the \$700,000 mark in assets. I note among listed assets bonds totaling \$306,380. These bonds are from the Massachusetts list of investments legal for savings banks, which list includes several hundred individual items, such as Federal, State and Municipal bonds, railroad securities of certain issues, telephone bonds, etc.

A smaller credit union may also have investments of this character. The Gilco Credit Union of Boston, organized among the employees of the Gilchrist Company, a large department store, with total assets of approximately \$22,000, has bond investments totaling \$13,488. It must be borne in mind that not only are such investments conservative (and they are not uncommon among credit unions) but they must come under the careful scrutiny of the Bank Commissioner at frequent intervals.

Helping the Employees to Stock Ownership in the Business

In another way the credit unions, when nationally extended, may add materially to the working capital of the people. Again we are concerned with straws which may indicate how the wind might blow. A loan to a member that he may invest in the stock of the com-

pany by which he is employed has been interpreted to be a proper loan. All told in recent years some ten thousand employees of the New England Telephone and Telegraph Company have bought stock in the Company, totaling approximately nine million dollars. As the credit unions organized among employees of the Company in Massachusetts, Rhode Island, New Hampshire and Maine have increased rapidly in assets and membership, more and more employees have bought Company stock through the Credit Unions. This has also been true of many of the larger industrial units within which credit unions are located. Here again we bump into a subject which might easily supply material for another book despite the fact that so much has been already written about it—the future relationship of employer and employee and the possible effect on industry of an increasing participation in the ownership of a business on the part of those who are employed by it. Having in mind that we are trying to work out a democracy in the United States—can such participation produce anything but value?

Future Industrial Relations

As this is being written we are in the midst of a great struggle to determine just what place labor shall assume in the resumption of normal business. Shall labor return to the conditions which preceded the war? Shall wages be lower than the pre-war level—or higher? Some men are wondering if this is a good time to attempt either to mortally wound or destroy organized labor. A few men see how utterly useless it is to attempt to progress with a democracy wherein class

hatred is being constantly inflamed. A few men see that the future of industry cannot be dictated by the winner of a finish fight. Such men realize that, just as a man who owns his own home is a better citizen by virtue of the fact that with home owning comes responsibility and stabilization, so the man with a personal stake in the business for which he works must in the process find a greater sympathy for the executive who is trying to make the business pay a dividend in which they both will share. I have in mind one great industry which operates with shop committees and on a profit-sharing plan which really shares profits and which has not only operated uninterruptedly throughout the period of business depression but has not even curtailed its force since the war ended nor has it reduced wages. The executives of that plant are working out the solution of the labor problem along co-operative lines and that is the only way a democracy, in the long run, can afford to have the problem worked out.

The "Labor Struggle"

We have heard much for many years of the "struggle between capital and labor" and all of us have experienced something of the results of the "struggle" Have we lost sight of the fact that "struggle" presupposes the sort of victory which leaves one party to the contest conquered and the other the conqueror? In a democracy the main thing, I repeat, is the promotion of opportunity and happiness for all the people. Can general happiness result from the victory of some of us over the rest of us—or must it come eventually

from the coöperation of all of us—for all of us? In the present process of civilization that is, I admit, an academic question, but already there are men of great capacity in the United States, leaders on both sides of our greatest issue, who are beginning to see that in coöperation there is the possibility of industrial stability and fair play between the essential elements of production. There are some Latin words on the great seal of the United States. As I recall them they are “E Pluribus Unum.” While I have forgotten all the Latin I ever knew, I know that these words, translated, do not mean “To the Victor Belongs the Spoils.” Particularly would I disapprove such an interpretation, as in the tableaux representing the struggle between capital and labor the public, to which rather general classification I belong, always impersonates the “spoils.”

The Small Merchant

The credit union also offers another legitimate use for newly accumulated capital. It may serve as the bank of the small merchant who has not yet grown to banking size. This man is a fascinating figure in our commercial life. Hereditary wealth is not nearly so fascinating to study as created wealth. We like to think, in this country, of self-made men. They are the product of a relatively new country and command attention. We like to think of our presidents as men who, in early youth, left the cabin at dawn to trudge many weary miles to a little red schoolhouse. Theodore Roosevelt upset a good many political traditions. Among them he overcame the handicap of not being financially self-made. So Henry Ford and John D.



WEST END CREDIT UNION—BOSTON, MASSACHUSETTS.

Rockefeller are much more interesting types than the second or third generation Astors and Vanderbilts. The man who makes a great fortune interests us—the man who inherits one interests us if he makes abnormally good or bad use of it.

America has the general reputation of standing for individual opportunity. Possibly it would be better if we always required that opportunity be bought and paid for in the currency of loyal citizenship. But we naturally and very properly like the notion that “every private soldier carries a marshal’s baton in his knapsack.” Many a street peddler, could we follow his career through, is putting in the foundations of a great business. Such men have credit problems. The West End Credit Union of Boston, which has assets of approximately \$200,000, is making almost exclusively loans of this type.

Education in the Use of Money and Credit

The reader will recall the details of the experience of Mary contained in a previous chapter. She was taught by her credit union how economically unsound for her was the proposition of buying extravagantly from an installment house and paying an exorbitant rate for credit involved in the purchase of something she could not afford to buy. This was a small problem. Only some such personal organization as a credit union could afford the time and expend the patience necessary to help Mary solve it. But its size does not detract from its importance, particularly to Mary—and there are probably a million Marys more or less, to whom banking service can only come this way.

Coöperative Buying

We have seen how the rural credit unions use newly accumulated capital to promote coöperative cash buying with great resulting savings. Coöperative buying is also possible in an urban credit union. A Maine credit union, having on hand a considerable surplus, worked out this plan—an experiment, it is true, but indicative of great possibilities. Lists of standard groceries were made up, each list containing such items as all householders use. After consultation with wholesale grocers the lists were completed and so arranged that the items could be purchased, by quantity buying, one list for a hundred dollars, a second for seventy-five dollars, a third for fifty and a fourth for twenty-five. The lists were then taken to several retailers, including the cut-price chain stores, and the lowest estimate on the hundred-dollar list was \$128 and the others were in proportion. A member, by borrowing from the credit union a hundred dollars, at a cost of six dollars, could buy groceries of a value of \$128, making 22 per cent thereby on the money borrowed. Such a transaction does not sound as alluring as some of the advertising matter accompanying offers of oil stock, for example, but against the almost certainty of loss of principal and a real certainty of no dividends, this little flyer in groceries was an absolutely sure thing with 22 per cent guaranteed dividends. That is what is meant in credit union language as “dividends of service.” The student will find in this illustration some food for reflection in its value as an illustration of the service of credit.

Coal

• Many credit unions, by advertising the fact to their members, induce such of their members as are coal providers to buy their coal in the spring. No coal has been mined all this summer and, as this is being written, coal administrators are being appointed in various states and coal will be scarce and high in price this winter. The credit union members (and there were many of them) who followed the advice of credit union managers last June have now a very impressive illustration of the personal value of credit union service. Under normal conditions coal is cheaper in New England in June than in November. One year a credit union bought five thousand tons of coal in a single purchase at fifty cents a ton less than the lowest price by the simple expedient of pooling the joint credit of all the members who wanted to buy coal. There is, in this single item, a considerable possibility of credit union usefulness, particularly as we must, apparently, contemplate with as much good nature and as philosophically as an outrageous condition will permit, the probability that each year the coal situation will be so juggled that some one can profit by the fact that the public will pay any price for coal when the alternative is freezing to death. Again it is foolish to worry about a too close proximity of the millennium.

Helping the Home Buyer

As has been said, there can be no better investment than home buying. Some credit unions use their surplus to supplement the work of the savings banks

and building and loan associations. Mr. X decides to buy a home, for example. He finds a good bargain he can get for \$5000. The bank will take a mortgage of \$3500, and he has \$800 cash. He needs \$700. A credit union can loan him this balance, taking a second mortgage as security. This is distinctly a loan "for a provident purpose" and is the final step which makes the purchase of the house possible.

Admittedly in these matters the value of the credit union is rather potential than actual as yet. It is again a matter of experimentation. However, there is something very significant in credit union loans made to enable the member to become a shareholder in the business which employs him and in the appreciable totals already appearing in some credit union statements as investments in conservative bonds.

Credit Unions in Times of Stress

A previous chapter contained a detailed analysis of a credit union operating in a time of abnormal stress. During the Ponzi excitement so many people were withdrawing savings for investment with him that credit union managers in and around Boston gave the matter very serious consideration. His plan had not been exposed at the time and some of his "investors" had received back their original "investments" increased fifty per cent as agreed. Ponzi, each day, marched triumphantly to lunch followed by admiring and cheering throngs and public opinion was sharply divided. And yet relatively few credit union depositors withdrew their savings from the credit unions. One manager of one of the largest credit unions tells me

that he personally interviewed all the withdrawing members at the time; that the total attempted withdrawals was not abnormal and that practically all of those who withdrew to invest with Ponzi put their money back in the credit union after talking the matter over with the manager. In another large credit union, situated in the very heart of the Ponzi activity, the same thing happened. Some did withdraw their money, even after talking it over with the manager, and then, after some reflection, redeposited it.

Shortly after the Ponzi matter came to a head there was a run on one bank and several trust companies were closed by the Bank Commissioner. During this period—in fact, during the entire period of financial and industrial depression in Massachusetts—not a single coöperative bank (building and loan association) or credit union was closed by the Bank Commissioner or had even the semblance of a run.

Conclusion

There is no doubt of two things: that large capital is now hoarded and that it should be put to work through some system which will appeal to those who are now content to hide their savings and that some method should be devised to divert into useful channels the vast sums now wasted in purchases of fraudulent and worthless stock.

The credit union can help—how materially depends on the extent of credit union development. It appeals to the small saver because he has so much to do with its management that he knows all about it and has faith in it. The element of education is not lacking.

Most of the money in credit unions would not be saved otherwise and the plan would seem to be well adapted to collect and put to work the "stocking savings" of the people. It will take a long time and much education to prevent waste of small savings, but the credit union offers a measure of education and an entertaining and practical service which may prove to be a not unattractive substitute for the individual who wants to see his money work effectively and can be educated not to expect miracles.

CHAPTER IX

THE CREDIT UNION—DEMOCRACY AND OTHER THINGS

This chapter may not seem to have much to do with the rest of the book. This is particularly true if I have failed to make clear the possible result of general credit union extension and my conception of the definition of democracy. It is this possible universal application that brings the credit union within the general scheme of things. It is the fact that the credit union will help, in its modest way, to open up greater opportunity to the masses of the people that makes it of possible value in a developing democracy.

In part this chapter may be explained by the natural reaction from months of study, most of which has been confined to statistical analysis. In any event I find certain general conclusions in my mind and the last chapter is the place to express them. They do have a bearing on the broader aspects of the whole matter.

To begin with, it seems to me that the theory of our democracy is a sound theory. That sounds like a platitude, but the emphasis is on the word "theory." There can be no real democracy without practice. "All men were created free and equal." That is the basis of our ideal of democracy and we will all find no difficulty subscribing to it. "E Pluribus Unum" is our national motto—our slogan as it were—"One for

All and All for One." Those who believe in the co-operative movement could have no creed more expressive of their belief. "Of the People, For the People and By the People"—that's a mighty fine summary of national purpose, and while it has been abused and greatly overworked, it stands as something to aspire to. "The land of the free and the home of the brave"—that is complimentary and can be established with fair accuracy by historical analysis. The eternal battle is to make all these lofty declarations of national ideal—these truly noble expressions of heart's desire—come true and to realize them in practice.

I doubt that there can be a democracy in which one element of the state establishes supremacy over another element. It would not be difficult, for example, to imagine the bulk of the wealth of the United States concentrated within relatively few hands and its administration devoted largely to promoting the general welfare and happiness—a sort of benevolent despotism of wealth wherein we were all comfortably provided for by the generosity of those who controlled our national resources. This probably wouldn't result from such control, but, even if it did, it would not be democracy. Neither would supremacy by organized labor—nor the control by any group, however large in numbers and however inspired by high purpose—be democracy. The great purpose of democracy can be realized only when all men see above their personal, class, religious, caste, political, economic and social interests and belief—the flag of their country.

I feel convinced, too, that our problem lies in the perfection and attainment and perpetuation of democ-

racy. I doubt, for example, that many socialists really understand the Marxian philosophy. There is something in the popular conception of the theory which has, for the uninformed, an appeal involving getting something some one else earns. This is, of course, error of real socialistic theory, but yet it is the inspiration of much socialistic thought. Then there are socialists who love to be different from the rest of us and, were the rest of us socialists, would be something else. There are of course a vast number of earnest people who are really socialists, but whatever part, big or little, socialism may play in the immediate or remote future, it is quite obvious that most of us are not ready to subscribe to the theory or put it in practice. It may be that, in an evolving democracy, all that is good in socialism will gradually be assimilated and adopted without most of us appreciating the fact.

If there is anything in communism—I speak as an uninformed layman—the Russian experiment has so submerged in horror anything of the theory which might be good, that it is difficult to conceive that any people who have so far advanced with the practice of democracy as we have need have any worry that a system of soviets will be established in this country. It is too difficult to distinguish between the autocracy of the Tzar and the even more effective autocracy of Lenine. Both seem to have depended on large armies for power and to settle differences by banishments to Siberia. It is much more pleasant to think of the news of the morning—that the American Relief in Russia has reached the peak of its service and is feeding ten million Russians—than it is to dwell on the

starvation and chaos that has seemed to logically result from the Russian experiment with a new sort of government.

The theory of democracy, particularly in the light of current events, is a comfortable and comforting theory. On the other hand there is no virtue in deliberate blindness. As this is being written there is a railroad strike, the strike of the coal miners which has been going on all summer is being settled only with the approach of a coalless winter, a textile strike in New England has paralyzed a major industry for months; there is much unemployment and a Congress in session which would give the most optimistic soul the blues. According to my morning's paper troops were ordered out in many states yesterday as various Governors responded to a suggestion of the President and that protection be thereby afforded the railroads. A few weeks ago, in Illinois, men of one group went out in battle formation and killed a goodly number of men of another group and for a considerable time it has seemed that nothing is to be done about it. A weekly magazine has been sending around millions of ballots to enable the people to vote as to whether or not they believe that a part of the Constitution of the United States should be observed fully or in part and more votes were cast for a partial obedience to this part of the Constitution than for complete obedience or amendment. We have apparently discovered that many citizens, who have been naturally counted on the side of law, cheerfully become lawless when the law happens to affect their self-indulgence. And yet—in a democracy—the law is the only sovereign and when the indi-

vidual flouts the law he contributes to the destruction of the democratic ideal.

- It is surely a good time to take our democracy up and look it over dispassionately. I have a small son and I think of him what every normal father thinks of his son. Yet I have to look him over occasionally, particularly if I am going to play fair with him and fit him to play a man's part later on. The individual who thinks of himself as an ultra-conservative, if his motive be no higher than the perpetuation of a condition which will permit his offspring to be an ultra-conservative, is as interested in this "looking over" process as the extreme radical who, unless he be deaf, dumb, blind and illiterate, has been able to observe something of what may happen when ideas which are out of balance are allowed to become operative. Both being equally patriotic at heart, need, possibly, to look the Republic over together.

I suppose we all know what is the matter with the world. The only difficulty is that we, each of us, see a corner of the problem—the corner which is nearest and most intimately affects our own condition. I was talking yesterday with a minister. He has a congregation of two hundred all told, including the Sunday-school, and, in the course of our talk, he said: "I know just what is the matter with the world. I'd just like to preach a sermon about it—if I dared." Possibly one of the things the matter with the world is that he doesn't dare—that leadership is lacking in his little church as it seems to be so lamentably lacking in higher places.

No one can contemplate even the very modest prob-

lems with which this book is concerned—the lack of thrift, the prevalence of usury, the increase in farm tenancy—the small farmer, his crop liened to the store keeper, paying twice what he should for what he needs, working his farm for a year or two and then moving on to exhaust soil elsewhere—the wage worker paying a rate to the usurer which should be impossible when civilization has advanced so far—without feeling this need of national self-examination.

During the latter days of the war I was Finance Manager of Ordnance. Despite the fact that my work brought me into intimate daily contact with some men to whom the war had no significance except the opportunity to get rich or richer, yet the producers of munitions who were serving with high patriotic purpose were in sufficient majority to make a very creditable average. But after the war I was for a while on a Board liquidating war contracts, and then came the National Back-slide.

War is a peculiar thing. There is no justification for it and yet it is not all loss. It seems to be the only way of subordinating partisanship. During a war National exaltation gets most of us. It is like the spiritual exaltation to which some folks are apparently inspired at camp-meeting. But the aftermath of war is more comparable to the back-slider, who slips in proportion as he was lifted up—only that he slips faster and may even strike a new low level. That seems to be a very human instinct and probably accounts for most of the cussedness that has been the prevailing type of human conduct since the tumult of the bombardment was stilled and the “boys came home.” I was talking

the other day with an ex-Service man and he somewhat overstated the case when he said, "The only place an ex-soldier can now find gratitude is in the dictionary." He has the wrong slant. Over a million dollars a day is being spent, as this is being written, on disabled men. Much of this is doubtless being expended effectually and the fact of it certainly indicates that the attempt to prove gratitude is being made. That we were slow in the matter—that Canada has apparently done better than we have—that there are possible defects in our system of relief—these do not counteract the fact that we are awake to our obligation to disabled men. Congress passed the adjusted compensation bill the other day, and, while it will not do to look too closely at the motives which inspired Congress in the matter, yet the bill was passed. But the ex-soldier came home to a welcome that marked the top notch of National feeling, when the paint was shining on the welcoming arch, and human nature couldn't stand the strain of a sustained attitude of grateful welcome any more than the arch could stand the weather. It is quite often possible to give three cheers when it would be inconvenient to give a man a job.

What is the matter with the world? First, probably, we should remove the mote from our own eye and ask, what is the matter with the United States?

Fundamentally—nothing. Despite what has been said by some men in high places, we helped win the war and we were not inspired by selfish motives in so doing. We sent the largest army we ever raised across the ocean to fight on foreign soil in defense of a principle. We helped our associates to finance the war

and, while we haven't remitted the debt, we are not pressing for payment and I doubt if we ever will, again in spite of many authoritative expressions of opinion to the contrary. We are saving the children of Russia from starvation and we have helped and will help the people of other countries equally remote from the home-land from annihilation because of lack of food. Looking at our weaknesses we are too prone to overlook the evidence that there is that we have real national character. I recall how my spine tingled when I read of the opening of the Disarmament Conference with a cool proposal that we would not build the largest navy in the world despite the fact that we could. The fact that the job of disarmament is unfinished—that the treaties have not yet become generally effective—that we are still experimenting with poison gases, doesn't detract from the splendid gesture that thrilled the world. There is a good deal to be optimistic about. A war is a good deal like a fire. The firemen come and smash things up pretty generally because it is their job to put the fire out and they can't bother to wipe their feet on the doormat. The inhabitants of the world even now are in about the same mood as the man whose house has been considerably burned and who, the morning after the fire, stands out in the front yard and wonders how to clean up the mess.

Speaking again as a layman, it seems to me that what we need is patriotism. Patriotism that will be greater and rise above partisanship. Partisanship, like rough-on-rats, has its distinctly valuable uses, but it may be most terribly uncomfortable and quite destructive if taken internally in too great doses. Right now

our greatest error (and this opinion, like the unsaid sermon of the little minister, reflects the opinion of a single soul in a crowd of a hundred and ten million and has a proportionate value) is contained in the fact that we are worshiping partisanship and, in so doing, say our prayers to a false God. It began with a partisan delegation to the Peace Conference. It continued when bitter partisanship destroyed whatever of good—and there was so much of good—that came out of the Conference. Partisanship, like some particularly vicious specimen of “home-brew,” has paralyzed Congress. Partisanship is not a matter of politics only. The complete inability of capital and organized labor to get together so that they may contribute to a resumption of normal conditions is a form of partisanship.

Consider for a moment partisanship in industry. Really great industrial leaders do not compute causes and results on the basis of a year or even of a generation. No really great manufacturer wants to see labor permanently reduced to a low living scale. If he does he isn't great, no matter how successful he may be. I have been in and out of many of the larger New England industrials in connection with credit union work and I have noted what seems to be a sharp division of tendency. There are some successful manufacturers (successful in their capacity to make their individual businesses pay dividends) who classify men and machinery together, except that they are inclined to take better care of their machinery than of their men. These men are satisfied with a status quo which results in a perpetuation of their present state of indi-

vidual satisfaction. They are quite blind to the fact that the attempted perpetuation of a condition between two individual units of society, which is very unsatisfactory to one of the units concerned, is the one sure way to upset the condition. How the man who works for such a boss lives, doesn't interest the boss. He cares only that the man lives and works at the lowest possible wage at which he can be hired until incapable of working further and that he then be replaced, if possible, by some one who will work for a less wage. Child labor, the importation of cheap foreign labor and many other unhappy problems originate from this misconception. I believe that this is a passing school of industrial thought.

The newer type of industrial leader approaches his industry as it should be approached in a democracy. He sees that the permanency of any system of government depends on the average happiness of the people who live within its jurisdiction. Such a man is interested in profit-sharing, in group insurance, in employees' mutual benefit associations, in rest-rooms, in credit unions and in the thousand and one things which make for harmonious relationships between capital and labor. He does not classify men with machinery. He humanizes industry by making it worth while for all the human elements concerned in it. And this type is the coming type and to them we must look for much of the hope of a perfected democracy, which perfection will assure the continuance of a democratic state. If coal mines were operated on such a basis—on an appreciation of the fact that the miner, engaged in a perilous business, is a human being—a

citizen of a democracy—entitled to a chance to live and not to be condemned to exist instead, the coal mines would be operating, assuming, of course, that coal mine owners want to mine coal in the summer. All of these things must come, this mutual understanding so essential to completely realize—in fact essential to preserve and develop the democracy. And the first step is to break down the habit of partisan thinking, to get men to see each other's angles, to promote Patriotism at the expense of class and party consciousness.

So with international relationships. Viewed selfishly, if we can produce, if in fact we must produce in order to keep working at normal speed, more than we consume, we need foreign markets and must be active in the reestablishment of such markets.

The problem of international coöperation can be reduced to a yardstick. The entire length of the stick represents what we in the United States can produce when we all have a job and are all working full time. About twenty-nine inches represents what we consume of our own products in this country. The other part of the yardstick represents what we must sell outside our own borders. We can either scale our production down to twenty-nine inches by part-time work or by keeping a whole lot of folks out of a job, or we can all work full time and export the seven inches. In terms of "jobs" we are interested in Europe just that much and it is impossible to get away from the conclusion that if we all want steady work we must help out in Europe so that the surplus we produce will have a market. That is common sense and there is no sentiment in it. It is a completely selfish reason why even-

tually we are going to do our part in the economic rehabilitation of Europe. Those who have advocated a League of Nations have possibly been shooting too high. We are apt to think in terms of "jobs" particularly when we have been hunting jobs for a long time without any permanent success.

Viewed unselfishly, we are in the position of the traveler on the road who stumbled across the unfortunate victim of the robbers. One type of traveler passes by on the other side. Another type binds up the wound of the sufferer, takes him to the Inn and helps him get on his feet. We are playing the Good Samaritan in Russia and in some other parts of the world, but the wounded traveler has other things the matter with him besides malnutrition. If partisanship could again be submerged Republicans might perfect a work which Democrats began, both being patriots capable of placing national duty and necessity above partisan hatred, much of which, by the way, is a matter of inherited prejudice rather than the result of any sort of constructive thinking.

It has always seemed amazing to me that the church should also be so much a partisan development. Could all the great figures of theological history have devoted their talents to the promotion of worship—just plain worship translated into the sort of living which would please an all-wise, seven-day-a-week God—instead of the promulgation of partisan worship through vastly assorted and conflicting systems of rules of worship, then into the hearts of men might have come the sort of brotherly love which would have made peace on earth possible and have brought universal good-will.

Nothing is so perplexing in all history, ancient and modern, as the complexity which has resulted from the effort of mankind to worship God. Nothing has so divided humans as this one great inspiration which should unite them. Can it be that there is a formula acceptable to the Deity—that the business of immortality depends on guessing which of a thousand passwords is the right one—or would all churches be performing their mission by forgetting their individual interpretations of ways and means and uniting on a simple understandable faith which could be worked out in the lives of men? Here again is a problem which probably it will take ages to solve but which, when properly solved, will contribute most to bring this much perturbed old world of ours nearer to perfection.

With the future of the Republic all sorts of problems are necessarily involved. Some sane immigration policy is involved in it. What kind of raw material is best adapted to the development of a democracy? And the credit union—a humble problem, just a bit of the angle—and yet it is involved because through the development of credit unions on a national scale millions of our people would become thrifty—would accumulate the bit that makes the acceptance of opportunity possible—usury would be abolished, were credit unions nation-wide, and the small farmer would find his chance and farm life become attractive for him. Many such problems are involved in the perfection of the state and the great, the almost insurmountable barrier against their solution is the inability or the unwillingness of men to understand men—the great barrier of partisan viewpoint, blinding the individual

whose vision might otherwise include the whole problem of national greatness.

In conclusion, therefore, simply by way of illustration, why not dream a dream—not that the dream could be realized, but, possibly, to point out what would prevent its realization—namely, this blindness which seems to keep men always apart except when the dangers incidental to a great national and common peril drives them to coöperative endeavor.

Suppose the President of the United States should call a conference and to it should invite a few great partisans. Because of fear what may be the outcome of great accumulations of wealth why not include a few men of great wealth and vision? Why not be practical and summon to the national service John D. Rockefeller, Jr., a great part of whose life is now being devoted to the problem of making the Rockefeller billions do effective human service. Call Henry Ford because he is a business genius. Add to the conference Warren S. Stone. He is more than a great labor leader. He has vision, and whatever he had undertaken in life would have been done with extraordinary ability. Mr. Gompers, President of the American Federation of Labor, long ago earned his place in such a gathering as I have in mind. Herbert Hoover could serve in a joint capacity—a member of the Cabinet, an engineer of great capacity who knows much of international relations. McAdoo is a Democrat, a man of great administrative ability. He should be there. The Secretary of State, who surely “earned his letter as a Statesman” at the Disarmament Conference, should be invited. He is a partisan, but a man of vision and

courage. From the Supreme Court might come Chief Justice Taft, a Conservative of the old school, with a splendid training and equipment and a fresh viewpoint on international relations, acquired in the course of his recent trip abroad. Justice Brandeis is a Liberal who senses the problems of today, particularly in their relationship to the probable problems of tomorrow. I would have Henry S. Dennison there because, to my mind, he has more nearly sensed a practical solution of the problem of capital and labor than any man whose work I have had opportunity to examine. Mr. Schwab, an employer of labor in large units and an administrator of ability and a patriot, should be in the conference. Edward A. Filene, merchant, a Democrat in politics, an extraordinary organizer of large groups, a very far-seeing business man, is also the type this conference would require. I might name others, but the above are merely suggestive. I would, of course, add two churchmen, because, as has been indicated, religion is also largely a partisan matter, men selected because of their breadth of learning, their experience in practical human relationships and their tolerance of religious conceptions other than their own; also a great publicist or two, in whom the Press of the country would have faith. The ex-Service men in this country, men of the age which naturally presupposes that within the present and the next generation they will have much to do with the development of the Republic, number in the millions. Thought should be given to their participation in the Conference. One or two others might be added to the group, but the group should be small and the greatest care should be exer-

cised lest some individual be included so set in partisanship as to be incapable of coöperative thought.

Before the group is completed it should be borne in mind that much of its work must be perfected by Congress, and from both the House and the Senate some leader should be chosen to membership, again with the purpose in mind of rigidly excluding the individual whose state of mind on national problems is solidified and who is incapable of meeting the opinions of other men. It would be best to call the Conference after Congress had adjourned and to induce Congress to adjourn without committing us to laws which might properly come within the scope of the work of the Conference.

Dreaming along—let us suppose that the President opens the Conference with some reference to the difficulties that beset the Republic. He would call the members to a service as patriotic and as non-partisan as they would gladly render were we at war and the enemy at the gates. He would ask them to consider the problems and to recommend in concrete form the solution recommended in each case by the Conference.

Then the President would turn to the Country. He would ask that every strike of any major importance be submitted to arbitration by boards to be selected by the Conference and that, abiding the naming of the boards and their decisions, all strikers go back to work and that their return be accepted without question. That would be the first test of our latent patriotism.

The conferees would adjourn to some place where they could live and work until, from their deliberations, they could produce some suggested solutions of the

problems which confront us. Let the Conference discuss the bonus and make some positive recommendation. Let the Conference discuss immigration, the tariff policy, the remission of foreign debts and our proper international relations, unemployment, arbitration, capital and labor, the enforcement of the 18th Amendment, or its Repeal, and every other major question of national concern. When they get to international problems, if the Conference wants to talk with representative foreign statesmen, invite them over. They probably would come. Put no limitations on their activities, give them full leeway, and let them go to it. The day they begin let every church be open and let all the people address their God and pray humbly that the Conference be a success.

Some sort of a solution to many of the problems of immediate moment may have been reached before this copy appears in print. If, however, the solution of a problem is based on fear—on the superior strength of one partisan over another—if strikes are ended by the intervention of the soldiery and laws are passed because lawmakers surrender to the fear of consequence, then there will be even greater need of the Conference based on the universality of patriotism.

While they are deliberating the people should be prepared for the reception of their reports through every available source of publicity which will reach the open mind. Only through the force of public opinion can the work of the Conference be made effective. Public opinion can make the machinery function so that the work of the Conference will be practical rather than academic.

Before I wake up may I add a vision of a national moratorium for ten years on partisan strife, that there may be an "era of good feeling" while the world gets going again to a better realization of a developing civilization.

Would such a Conference fail? Probably—if the members are inspired by any other motive and purpose than love of country and if the vast rank and file of the people are not sick to death of a fumbling, blind partisanship—Partisanship—triumphant over Patriotism.

If it should succeed—why part of the fun of writing a book is the dreaming of dreams.

APPENDIX

CREDIT UNION LAWS

The two standard credit union laws are the Massachusetts Law (see "Statutes Relating to Credit Unions"—General Laws, Chapter 171) and the North Carolina Law (see "The Incorporation, Maintenance and Supervision of Credit Unions and Cooperative Associations"—Chapter 115, Public Laws, 1915).

Copy of the Massachusetts Law may be obtained on request by addressing Commissioner of Banks, State House, Boston, Massachusetts; the Credit Union League, 5 Park Square, Boston, Massachusetts, or the Credit Union National Extension Bureau at the same address. Copy of the North Carolina Law may be obtained by addressing the Division of Markets and Rural Organization, State of North Carolina, Raleigh, North Carolina.

A tentative draft for a rural credit union law is contained in United States Department of Agriculture, Department Circular 197, entitled "The Credit Association as an Agency for Rural Short-time Credit," by V. N. Valgren and Elmer E. Englebert, copy of which may be had by addressing V. N. Valgren, Associate Agricultural Economist, Farm Finance Section, United States Department of Agriculture, Washington, D. C.

A copy of "The Credit Union Primer," by Arthur H. Ham and Leonard G. Robinson, may be had by addressing Secretary, Division of Remedial Loans, Russell Sage Foundation, 130 East 22d Street, New York City.

For other literature on the subject, address the Credit Union National Extension Bureau, 5 Park Square, Boston, Massachusetts.

There is attached hereto a tentative draft of a credit union law which, as is noted in the draft, contains provisions which have worked well in various state enactments and some suggested additions which would strengthen the law. There is also attached a typical set of by-laws of an urban credit union organized under the Massachusetts law with suggested additions to make the by-laws also conform with North Carolina practice.

Tentative Draft of a Proposed Uniform Credit Union Law

Be it Enacted by the General Assembly of the State of
(Or such other introduction as is required by the formal procedure of the particular state.)

SECTION 1. Any (the number of persons initiating the legislation should be small—in Massachusetts it is seven—it should not exceed twelve) persons, residents of the state of ——— may apply to the (if an urban development is contemplated—to the Department of Banks; if a strictly rural development, the application might follow the North Carolina law and be directed to the Department of Agriculture; as credit unions are subject to annual examinations, as are banks, the logical place where jurisdiction should rest, would be the Department of Banks) for permission to organize a credit union by signing and acknowledging in duplicate, a certificate of organization and entering into articles of agreement, in which they shall bind themselves to comply with its requirements and with all the laws, rules and regulations applicable to credit unions. The certificate of organization shall state:

- (1) The name of the proposed credit union and the city, town or village in which its business office is located.
- (2) The names and addresses of the subscribers to the certificate and the number of shares subscribed by each.
- (3) A statement that incorporation is desired under this particular law and the par value of the shares, which shall not exceed ten dollars.

At the time of filing the said certificate with the (insert the Department which is to have jurisdiction—as above indicated preferably the Department of Banks) the incorporators shall submit, in duplicate, sets of by-laws with acknowledgment of their adoption by the incorporators which shall provide:

- (a) The date of the annual meeting, which shall be in January of each year, the manner of notification of meetings and conducting the same, the number of members constituting a quorum and regulations as to voting.
- (b) The number of directors (which shall not be less than five) all of whom must be members, their powers and duties, together with the duties of officers elected by the board of directors.
- (c) The qualifications for membership.
- (d) The number of members of the credit committee and of the supervisory committee (which shall not be less than three each), together with their respective powers and duties.
- (e) The conditions under which shares may be issued, transferred and withdrawn, deposits received and withdrawn, loans made and repaid and the funds otherwise invested.

- (f) The charges, if any, which shall be made for failure to meet obligations punctually, whether or not the corporation shall have the powers to borrow, the method of receipting for money, the manner of accumulating a reserve fund and determining a dividend and such other matters, consistent with the provisions of this Act, as may be required to perfect the organization and make possible the operation of the credit union in question.

The said (generally head of the Department of Banking) shall approve said certificate of organization, if it is in conformity with this Act, and said by-laws if satisfied that the proposed field of operation is favorable to the success of such corporation and that the standing of the proposed incorporators is such as to give assurance that its affairs will be properly administered. (It will be noted that the Massachusetts law vests in the Board of Bank Incorporation, composed of the Bank Commissioner, the State Treasurer and the Commissioner of Corporations, jurisdiction in determining whether or not a charter shall be granted to a specific group of applicants while in North Carolina this power vests in the Credit Union Superintendent, provided for in the law) He shall thereupon issue to the proposed incorporators a certificate of approval, annexed to the duplicate of said certificate of organization and of said by-laws, which said certificate of approval, together with said attachments, shall be filed (generally in the office of the clerk of the county or the municipality in which the credit union is located). Thereupon said incorporators shall become and be a corporation.

SECTION 2. *Amendments to the By-laws.* No amendment to the by-laws shall become operative until approved by (the supervising official) and until a certified copy has been filed (as original by-laws are filed).

SECTION 5. *Membership.* The membership shall consist of the incorporators and such persons, societies, associations, co-partnerships and corporations as have been duly elected to membership and have subscribed to one or more shares and have paid for the same in whole or in part, with the entrance fee as required by the by-laws, and have complied with such other requirements as the certificate of organization may contain. (There has been some dispute as to whether the Massachusetts law permits other than "natural persons" to belong to the credit union. There should be no uncertainty on this point. In an urban credit union, for example, in a factory there are many groups of employees which, as such, desire membership in the credit union and will add materially to its resources—also, in a rural credit union an associated coöperative buying and selling association should be eligible to membership in the credit union.)

SECTION 6. *Reports. Examination. Supervision.* Credit unions shall be subject to the supervision of the (as previously indicated—the State Department of Banking unless the development anticipated is exclusively rural) and shall make a report of condition to him at least semi-annually, on blank forms to be supplied by said (Examiner) on the dates of the second and fifth calls made to National Banks, notice of which calls shall be sent out by said (Examiner). Returns shall be verified under oath of the President and Treasurer and additional reports may be required by the said (Examiner). Any credit union which neglects to make the above reports shall forfeit to the Treasury of the state five dollars for each day of such neglect unless excused.

Each credit union shall be examined at least annually by the said (Examiner) or his duly authorized deputy. Said (Examiner) may order other examinations and shall at all times be given free access to all the books, papers, securi-

ties and other sources of information in respect to said credit union. For that purpose he shall have the power to subpoena and examine personally, or through one of his deputies duly authorized, witnesses on oath and documents pertaining to the business of the credit union.

If a credit union neglects to make the required reports or to pay the charges herein required, including charges for delay in filing reports, for fifteen days the said (Examiner) shall notify the credit union of his intention to revoke the certificate of approval. If said neglect or failure continues for another fifteen days, the said (Examiner) may revoke the certificate of approval and he, or through one of his deputies, shall take possession of the business of such credit union and retain possession until such time as he may permit it to resume business or its affairs are finally liquidated.

If it appears to said (Examiner) that a credit union has violated any of the provisions of this Act he may, by an order made over his hand and official seal, after hearing or an opportunity for a hearing has been given, said credit union, direct said credit union to discontinue its illegal methods and practices. If a credit union is insolvent or has, within a reasonable time, failed to comply with any order mailed to the last address filed by said credit union with said (Examiner) he shall immediately or within a reasonable time thereafter, take possession of the business and property of the credit union and retain possession until such time as he may permit it to resume business or its affairs are finally liquidated.

Note. If, in a given State there are rules governing the examination of and reports by banks and the credit union law vests general jurisdiction in the same department as has jurisdiction over banks much of this section may be omitted and the length of the law materially decreased by cross references to the general law if the provisions of the general law will work readily, in this respect, for credit unions.

SECTION 7. *Organization and Educational Work.* There shall be established within the (Department having supervision) a Superintendent of credit unions with such assistants as may from time to time be required, chosen in such manner and paid such compensation as said Department may determine, whose duties shall be:

- (1) To organize and conduct a Bureau of Information in regards to credit unions and to maintain an educational campaign in the state, looking to the promotion and organization of credit unions
- (2) Upon application of three persons, residing in the state, to furnish without cost such printed information and blank forms as may be necessary for the formation and establishment of any local credit union in the state and, upon written request of eight residents of the state, expressing a desire to form a local credit union in their particular locality, to proceed as promptly as convenient to said locality and to advise and assist said organizers to perfect their organization and to submit to the said (Examiner) his recommendations in the matter of incorporating the credit union in question.

Note. Some such provision as the above is absolutely essential. There is such provision in the North Carolina law. Obviously no use will be made of a law unless the people who would make use of it know of its existence

SECTION 8. *Fiscal Year. Meetings. Regulations as to Voting.* The credit union fiscal year shall end at the close of business on the thirty-first day of December. Special meetings of the members may be held by order of the board of directors, of the supervisory committee and shall be held on request of 10 per cent of the members. At all meetings a member shall have but one vote, irrespective of the number of shares held. No shareholder may vote by proxy but

a society, association, co-partnership or corporation, having membership in the credit union, may be represented by one person, duly authorized by said society, association, co-partnership or corporation to represent it. At any meeting the members may decide on any matter of interest to the corporation, may overrule the directors and, by a three fourths vote of those present, may amend the by-laws, providing the notice of the meeting shall have stated the question to be considered.

SECTION 9. Elections. At an annual meeting the members shall elect a board of directors, a credit committee and a supervisory committee. Unless the number of members of the credit union is less than eleven, no member of the board shall be a member of either of said committees. All members of the board and committees and all officers shall be sworn, and shall hold their several offices for such terms as may be provided in the by-laws. The oath shall be subscribed by the individual taking it and certified by the officer before whom it is taken and shall immediately be transmitted to the (State Examiner of State Banks) and filed and preserved in his office.

SECTION 10. Directors. Officers. Compensation. At the first meeting and at each first meeting in the fiscal year, the board of directors shall elect from their own number a president, vice-president, secretary and treasurer. If the by-laws so provide the offices of secretary and treasurer may be held by the same person. The board of directors shall have the general management of the affairs, funds and records of the corporation and shall meet as often as may be necessary. Unless the by-laws shall specifically reserve any or all of the duties of the members, it shall be the special duty of the directors:

- (1) To act upon all applications for membership and on the expulsion of members.

- (2) To determine, from time to time, rates of interest which shall be allowed on deposits and charged on loans.
- (3) To fix the amount of the surety bond which shall be required of each officer having the custody of funds.
- (4) To fix the maximum number of shares which may be held by and the maximum amount which may be loaned to any one member; to declare dividends and recommend amendments to the by-laws.
- (5) To fill vacancies in the board of directors and credit committee until the election and qualification of successors.
- (6) To have charge of the investment of funds of the corporation, other than loans to members, and to perform such other duties as the members may, from time to time, authorize.

No member of the board of directors or of the credit or supervisory committees shall receive any compensation for his services as a member of said board or committee.

SECTION 11. *Credit Committee.* The credit committee shall approve every loan or advance made by the corporation to members. Every application for a loan shall be in writing, on a form prepared by the board of directors, and shall state the purpose for which the loan is desired and the security, if any, offered. Security must be taken for any loan in excess of fifty dollars; endorsement of a note or assignment of shares in any credit union shall be deemed security in the meaning of this section. No loan shall be made unless it has received the unanimous approval of the members of the committee present when the loan was considered, which number shall constitute at least a majority of the committee, nor if any member of the committee shall disapprove thereof. An applicant for a loan may appeal

to the directors from the decision of the credit committee, if it is so provided in the by-laws and in the way and manner therein provided. The credit committee shall meet as often as may be required after due notice has been given to each member.

SECTION 12. *Supervisory Committee, Audit and Report.* The supervisory committee shall, at frequent intervals, inspect the securities, cash and accounts of the credit union and supervise the acts of the board of directors, credit committees and officers, any or all of whom the supervisory committee may, at any time, by a unanimous vote, suspend. Within seven days after such suspension, the supervisory committee shall cause notice to be given the members of a special meeting to take action on such suspension, the call for the meeting to indicate clearly its purpose. By a majority vote the committee may call a meeting of the shareholders to consider any violation of this Act or of the by-laws, or any practice of the credit union which, in the opinion of said committee, is unsafe and unauthorized. The committee shall fill vacancies in their own number until the next annual meeting of the members. At the close of the fiscal year the supervisory committee shall make or cause to be made a thorough audit of the receipts, disbursements, income, assets and liabilities of the credit union for the said fiscal year and shall make a full report thereon to the directors, which report shall be read at the annual meeting and shall be filed and preserved with the records of the credit union.

SECTION 13. *Capital.* The capital of a credit union shall consist of the payments that have been made to it by the several members thereof on shares. A credit union shall have a lien on the shares of any member and on the dividends payable thereon for and to the extent of any loan made to him and of any dues and fines payable by him. A credit union may, upon the resignation or expulsion of a

member, cancel the shares of such member and apply the withdrawal value of such shares towards the liquidation of said members' indebtedness. A credit union may charge an entrance fee, as may be provided in the by-laws. Fully paid up shares of a credit union may be transferred to any person upon election to membership, upon such terms as the by-laws may provide and upon the payment of a transfer fee which shall not exceed twenty-five cents. (It must be possible to start a credit union without appreciable paid in capital stock.)

SECTION 14 *Shares and Deposits of Minors and in Trust.* Shares may be issued and deposits received in the name of a minor and in trust in such way and manner as the by-laws may provide.

SECTION 15. *Rates of Interest.* A credit union may lend to its members at reasonable rates of interest, which shall not exceed one per cent a month, or invest the funds accumulated as herein provided. (In Massachusetts there is no limitation on rate. A limitation of one per cent a month is adequate.)

SECTION 16. *Power to Borrow.* A credit union shall have the power to borrow from any source but the total of such borrowing shall at no time exceed fifty per cent of the capital, surplus and reserve fund of the borrowing credit union.

SECTION 17. *Loans.* A credit union may loan to its members, as herein provided, for such purposes and upon such security as the by-laws may provide and the credit committee shall approve.

A member who needs funds with which to purchase necessary supplies for growing crops may receive a loan in fixed monthly installments instead of one sum.

A borrower may repay the whole or any part of his loan on any day on which the office of the corporation is open for the transaction of business.

No director or member of the credit or supervisory committees shall be allowed to borrow from the corporation or to become endorser for a borrower.

SECTION 18. *Reserve Fund.* All entrance fees, transfer fees and charges shall, after the payment of the organization expenses, be known as reserve income and shall be added to the reserve fund of the credit union.

At the close of the fiscal year there shall be set apart to the reserve fund twenty per cent of the net income of the corporation which has accumulated during the year. The members, at an annual meeting, may increase the proportion of the profits which is required by this section to be set apart to the reserve fund or to decrease it when it equals the paid in capital of the credit union. The reserve fund shall belong to the corporation and shall be held to meet contingencies and shall not be distributed to the members except upon dissolution of the corporation.

SECTION 19 *Dividends.* At the close of the fiscal year a credit union may declare a dividend from the net earnings. Dividends shall be paid on all fully paid shares outstanding at the close of the fiscal year, but shares which become fully paid during the year shall be entitled to a proportional part of said dividends calculated from the first day of the month following such payment in full

SECTION 20. *Expulsion and Withdrawal of Members.* At any regularly called meeting the members, by a two-thirds vote of those present, may expel from the corporation any member thereof. A member may withdraw from a credit union or a non-member may withdraw deposits, as hereinafter provided, by filing a written notice of such intention.

All amounts paid in on shares of an expelled or withdrawing member with any dividends credited to his shares to the date of expulsion or withdrawal shall be paid to said member but only as funds therefor become available and

after deducting any amounts due to the corporation by said member. All deposits of an expelled or withdrawing member, with any interest accrued, shall be paid to such member, subject to sixty days' notice, and after deducting any amounts due to the corporation by said member. Said member, when withdrawing shares or deposits, shall have no further right in said credit union or to any of its benefits, but such expulsion or withdrawal shall not operate to relieve such member from any remaining liability to the corporation.

SECTION 21. *Voluntary Dissolution.* At any meeting, called for the purpose, notice of the purpose being contained in the call, four-fifths of the entire membership may vote to dissolve the corporation and shall thereupon signify their consent to such dissolution in writing and shall file such consent with the (Examiner), attested by a majority of its officers, with a statement of the names and addresses of the directors and officers, duly verified. The (Examiner) upon receipt of satisfactory proof of the solvency of the corporation, shall execute in duplicate a certificate to the effect that such consent and statement have been filed and that it appears therefrom that the corporation had complied with this section. Such duplicate certificate shall be filed by such corporation in the office of the clerk of the county in which said corporation has its place of business, and thereupon such credit union shall be dissolved and shall cease to carry on business except for the purpose of adjusting and winding up its affairs. It shall, by its board of directors, then proceed to adjust and wind up its business, empowered to carry out its contracts, collect its accounts receivable, and liquidate its assets and apply the same in discharge of the obligations of the corporation and, after paying such obligations, each share according to the amount paid in thereon, shall be entitled to its proportion of the balance of the assets. Said corporation shall continue in existence for

the purpose of discharging its debts and obligations, collecting and distributing its assets, and doing all other acts required in order to wind up its business, and may sue and be sued for the purpose of enforcing such debts and obligations until its affairs are fully adjusted and wound up, for three years.

SECTION 22. *Change of Place of Business.* A credit union may change its place of business on written notice to the (Examiner).

SECTION 23. *Taxation.* A credit union shall be deemed an institution for savings and together with all accumulations therein, shall not be subject to taxation except as to real estate owned. The shares of a credit union shall not be subject to a stock transfer tax when issued by the corporation or when transferred from one member to another.

SECTION 24. *Repeal of Conflicting Legislation.* All laws and parts of laws in conflict with the provisions of this Act are hereby repealed.

SECTION 25 *Time of Effect.* The Act shall take effect immediately after its passage and approval by the Governor.

A Tentative Set of Credit Union By-laws

Note. The author has drafted the by-laws of a considerable number of urban credit unions now in successful operation. The following draft contains provisions which have been found to work well in Massachusetts credit unions and is based on a study of by-laws recommended by W. R. Camp, when Superintendent of North Carolina credit unions, taken in conjunction with the Massachusetts experience.

Article I

NAME, OBJECT AND LOCATION

SECTION 1. The name of this corporation is the Blank Credit Union

SECTION 2. The object of the corporation is to promote thrift among its members by giving them an opportunity to save money in small amounts, and to obtain loans at

moderate rates for purposes which promise to be of benefit to the borrower. The spirit of the association is coöperative. (The North Carolina by-laws describe the purpose as "To make the business of farming more efficient, attractive and profitable, and to bring about a fraternal union between the members of the association, and to promote thrift, honesty and integrity among its members." The purpose also includes "to grant credit under proper restrictions to members who are making coöperative purchases of supplies, either through the credit union or through some outside organization to act in the capacity of a coöperative purchasing and selling agent for members")

SECTION 3 The office of this corporation shall be at such place in the town of Blank as the directors may prescribe.

Article II

GENERAL GOVERNMENT AND REFERENCES

SECTION 1 The laws of the state of Blank which now exist, or which may hereafter be adopted, are the primary laws of this corporation.

Article III

MEMBERSHIP AND SPHERE OF OPERATION

SECTION 1. Membership in this corporation is limited to those who (insert the membership limitation. It is customary in a Massachusetts urban credit union, for example, if the credit union is in some particular industrial unit, to include the wives and families of members). (Quoting the North Carolina section on the same subject. "Honesty, integrity, thrift and industry shall be the chief qualifications for membership" It is provided in the North Carolina by-laws that "any male or female, resident of Blank" may become a member—that "a limited number may be accepted

for membership who are not residents of said district, at the discretion of the Directors ")

SECTION 2. Applications for membership must be made in writing, and must each bear the approval of a member of the Board of Directors, being presented by him to the Board for action at the next regular meeting. The negative vote of two directors will reject any applicant. No director shall present the name of any person whom he cannot recommend as being honest, industrious and of good habits.

A person admitted to membership by the Board of Directors shall not become a member until he has qualified by paying the entrance fee, subscribing for at least one share of stock and paying the first minimum weekly installment thereon (North Carolina provides "and upon subscribing to one or more shares and paying for the same, in whole or in part").

SECTION 3. No member may resign while a borrower, an endorser or a guarantor of any loan from the corporation.

SECTION 4 A member who leaves the sphere of operation of the corporation (Massachusetts provides that he may keep in what he has in but put no more in and not borrow—that he must take out all he has in and close out with the credit union or that he may leave what he has in, put more in if he wishes but, in no event, can he borrow from the corporation after leaving its "sphere of operation." Each credit union decides for itself which of the three plans it will follow).

SECTION 5. All transactions of the shareholders with the corporation are strictly confidential.

Article IV

CAPITAL AND LIABILITY

SECTION 1. The capital is unlimited in amount, and consists of shares of a par value of (in Massachusetts gen-

erally not more than \$5.00—in North Carolina generally \$10.00). Shares may be payable when subscribed for or in installments (in Massachusetts generally twenty-five cents per share weekly—in North Carolina the installment unit is a dollar or more except for junior members and the payments may be quarterly) but on any day when such installments are due, any number of such installments may be paid in by the subscriber.

SECTION 2. A member failing to pay an installment on a share when due unless excused therefrom for cause by the Board of Directors shall pay a fine (in Massachusetts generally one-half of one cent per week on each dollar or fraction of a dollar remaining in arrears. The North Carolina provision reads “a fine at the rate of one per cent per month, or fraction thereof on amounts in default providing that, in no case, shall said fine be less than five cents”). The Board of Directors shall have the right to order this fine remitted or refunded if proper cause is shown. If his fines or other dues remain unpaid without permission for three months (in North Carolina—“one year”) said member shall forfeit his rights as a member, and any balance remaining to his credit on the books, after deducting all sums due the corporation, shall be paid such delinquent person by the treasurer, or his subscription for shares above all then fully paid may be cancelled and his membership continued if the Board of Directors so orders.

SECTION 3 Shares may be transferred only in writing from one member to another upon payment of a fee of (in Massachusetts generally 25 cents—North Carolina same) for each transfer, and in such form as the treasurer may approve.

SECTION 4. Money paid in on shares or installments of shares may be withdrawn on any day when payments for shares may be made, but the directors of the corporation shall have the right to require a member at any time to give

ninety days' notice (in North Carolina "thirty days" after "written notice") of his intention to withdraw the whole or any part of the amount paid in by him on account of shares.

SECTION 5. A member shall have no liability for shares, either fully paid up or subscribed for, beyond the amount actually paid in thereon.

Article V

DEPOSITS AND INTEREST THEREON

SECTION 1. In order that the capital may be relatively permanent and subject to few withdrawals, a member may deposit money in sums of (in Massachusetts generally "not less than twenty-five cents at any one time." The North Carolina law makes it possible for North Carolina by-laws to read "The credit union may receive on deposit the savings of members *and non-members* in such amounts as the Board of Directors may determine").

SECTION 2. Deposits will be placed on interest on the first day of every month. Interest is payable quarterly on the first days of (in Massachusetts generally February, May, August and November). On each of said days interest shall be payable on that portion of his account which has stood to his credit for one or more entire months immediately preceding such interest day. (North Carolina—"Deposits remaining in the credit union for three months or longer shall draw interest beginning the first day of the month following the making of the deposit".)

SECTION 3. Deposits may be withdrawn on any day on which the corporation is open for business, but the directors may at any time require the depositor to give thirty days' notice (sixty days in North Carolina) of his intention to withdraw the whole or any part of his deposit.

Article VI

RECEIPTING FOR MONEY—PASS BOOKS

SECTION 1. Money paid in on account of shares or installments of shares or as deposits, or in repayment of loans, or as interest or fines, shall be evidenced by a pass-book, which in separate columns shall permit successive payments on any of these accounts, or loans made, or withdrawals of shares or deposits to be entered therein. Every entry in the pass-book shall be initialed by the treasurer or person receiving or paying out the money represented thereby—or bear a reference showing where in the cash books or cash sheets such payment or withdrawal is entered. No money shall be received from or paid to a member—except on account of the making or repayment of a loan—unless the pass-book is presented for the proper entry to be made therein.

SECTION 2 In all cases a payment upon presentation of a pass-book shall be a discharge to the corporation for the amount so paid.

SECTION 3. If a pass-book is lost or stolen, the member must notify the treasurer at once. A member who has lost his pass-book may obtain a duplicate upon establishing ownership and paying a fee (in North Carolina “of twenty-five cents”—in Massachusetts generally “of ten cents”).

Article VII

LOANS

SECTION 1. No member may borrow from the corporation if he is not in good standing, or if he has failed to repay any previous loan or if he is in arrears in the payment of any current loan or installments thereon, or if his indorsers or sureties have ever been called upon to pay any of his obligations. (North Carolina—“Loans may be made only to members in good standing . . . Loans shall be granted

only for productive purposes, and to a very limited extent for urgent needs. The Credit Union shall not in any sense be considered a philanthropic institution.”)

SECTION 2. No loans shall be made except on written application signed by the person desiring the loan, showing the date, name of applicant, amount asked for, and the purpose for which the loan is desired, nor except upon the approval in writing endorsed thereon of at least three members of the credit committee. All applications for loans shall be filed. (North Carolina—“Applications for loans shall state specifically the purpose for which the money is borrowed, and that no consideration has passed or will pass from the borrower to the endorsers for their endorsement. In case the facts as stated in the application are not found to be as represented, or the money borrowed has been used for other purposes than those for which it was granted, or if the borrower disposes of his property or ceases to reside thereon the loan shall immediately become due and payable.”)

SECTION 3 No loan shall be made to a member already indebted to the corporation unless he shall, at the time of taking out the second loan, pay the balance on the previous loan. Any interest which may have been paid in advance on such previous loan, for a period beyond the date of taking out the second loan, shall in such case be applied towards the interest on the second loan.

SECTION 4. In case of an appeal from the decision of the credit committee refusing to grant a loan, the Board of Directors shall consider said appeal, and, by a unanimous vote of the members present may order the loan granted, provided the supervisory committee, by a unanimous vote, shall approve such action. (North Carolina—“Appeals from the decisions of the credit committee may be taken to the Board of Directors who may lay the matter before the shareholders”)

SECTION 5. A member failing to pay an installment on a loan when due shall pay a fine (in Massachusetts generally "of one-half of one per cent per week on each dollar or fraction of a dollar remaining in arrears"). If his installments, interest or fines remain unpaid for three months, the Board of Directors shall have authority to take such steps towards terminating his membership and making collections as may in its judgment be advisable.

Note. The Massachusetts law provides that "no member of the credit or supervisory committee shall, directly or indirectly borrow from the corporation or become surety for any loan or advance made by it. No member of the board of directors shall, directly or indirectly, borrow from the corporation or become surety for any loan or advance made by it, unless such loan or advance has been approved at a meeting of the members by a majority vote of those present and the notice of said meeting stated that the question of loans to directors would be considered at such meeting." North Carolina by-laws provide: "The Supervisory Committee shall appoint a substitute to act on the Credit Committee in the place of any member of the Credit Committee in case such member makes application to borrow money from the credit union, or becomes surety for any other member whose application for a loan is under consideration."

Article VIII

BOARD OF DIRECTORS

SECTION 1. The Board of Directors shall consist of (in Massachusetts the number is generally determined by the number needed to cover the field of operations of the credit union—in North Carolina there may also be added a "junior Committee" which committee "in the event that any minors, either boys or girls, under 21 years of age, shall become members and shareholders to the number of five or more works with and for the junior members and is chosen from them. The Junior Committee elects a Secretary who becomes a member of the Board of Directors of the Credit Union, with all powers except that he may not be an officer of the Credit Union) elected in accordance with the following regulations.

SECTION 2. The organization meeting shall be called the first annual meeting, and the first meeting called in accordance with Section I of Article XII of these by-laws shall be considered the second annual meeting.

SECTION 3. At the above-named organization meeting there shall be elected (in Massachusetts the general rule is to elect for terms of three years, the first election, however, providing for some directors for one, some for two and some for three years with elections for three years thereafter, so that some directors will come up for election each year. This practice varies and sometimes directors are all elected for a single year).

SECTION 4. Any vacancies occurring in the interim between annual meetings shall be filled by the Board of Directors until the next annual meeting, when members shall be elected to fill the unexpired term.

SECTION 5. In addition to the duties of directors set forth in the Credit Union Law, they shall designate the bank or banks in which the funds of the corporation shall be deposited, and shall take all measures for the interest of the corporation not within the jurisdiction of the general meeting and not inconsistent with the laws of the Commonwealth and these by-laws (North Carolina—"The Board of Directors shall have the general management of the affairs, funds and records of the Union. It shall be their special duty to act upon all applications for membership and the expulsion of members; to fix the amount of the surety bond of the Treasurer; to determine the rate of interest on loans and on deposits; to select a bank as a depository for the funds of the Credit Union; to borrow money; to declare dividends; to fix the maximum number of shares to be held by and the maximum to be loaned to any member; to recommend amendment to the by-laws; to fill vacancies in the Board until the election and qualification of successors, and to perform such other duties as the

members may from time to time authorize.) (It will be noted that, in Massachusetts, some of these duties are performed by the members at the annual meeting.)

SECTION 6. The number required for a quorum of the Board of Directors which, if the Board is large, should be small enough so that business can be done readily.

SECTION 7. The corporation shall not borrow money except upon the specific approval of the Board of Directors, acting under general authorization of the members at an annual or special meeting giving the said Board such authority: nor without the approval of the Bank Commissioner. (The borrowing power is much more important among rural credit unions. North Carolina provides "The Credit Union may borrow from any agency or person selected by the Board of Directors; provided, however, that the amount to be borrowed, the terms upon which the loan is to be obtained and the name of the prospective lender are in each instance first submitted to a meeting of the Board of Directors and the loan duly authorized by them. but in the cases in which the amount borrowed by the credit union is in excess of twice the capital, the members shall designate the maximum amount which the directors may borrow and for which the credit union shall be liable, provided that a credit union having five thousand dollars capital, surplus and reserve funds, shall not borrow more than the sum of such funds. If, however, the lender accepts the note of the members with such individual endorsements as the credit union may deem necessary, but without the endorsement of the credit union, then the amounts so secured through the agency of the credit union, shall not be included in the sum for which the credit union is liable. The amount which may be thus borrowed without liability of the credit union shall be left to the discretion of the Board of Directors")

SECTION 8. If a member of the Board of Directors or

of the Credit Committee fails to attend the regular meetings of said Board or Committee and to perform any of the duties devolving upon him as a member of said Board or Committee for four consecutive meetings his office may be declared by the Board of Directors at its next regular meeting to be vacant, and the vacancy shall be filled as elsewhere provided.

SECTION 9. In the absence or disability of the vice-president, clerk or treasurer, the Board of Directors may appoint another person temporarily to act in his stead.

Article IX

CREDIT COMMITTEE

SECTION 1. The Credit Committee shall consist (in Massachusetts, generally of three members—North Carolina, three) elected as follows:

SECTION 2 In Massachusetts generally for three year terms so arranged that one will come up for election each year—in North Carolina, generally, for single year terms.

SECTION 3 Any vacancies occurring in the interim between annual meetings shall be filled by the Board of Directors until the next annual meeting, when members shall be elected to fill the unexpired term.

SECTION 4. A majority of the Committee is generally fixed as a quorum

SECTION 5 Meetings of the Credit Committee shall be held as often as may be necessary, at the call of the Chairman or Clerk of the Committee or of any two members thereof.

SECTION 6. Upon the Credit Committee is placed the responsibility for the solvency of the corporation; therefore, its members must inquire carefully into the personal habits and financial condition of borrowers and their sureties, to ascertain their ability to repay fully and

promptly the obligations assumed by them, and ascertain whether they promise to be of benefit to the borrower.

SECTION 7. The Credit Committee determines the security or guaranties which shall be required for the loan, the terms upon which it shall be repaid, and the rate of interest which shall be charged. When the security is equal, preference shall be given in all cases, to the smaller loan. .

Article X

SUPERVISORY COMMITTEE

SECTION 1. The Supervisory Committee shall consist of three members (in Massachusetts this number is fixed by law as is also the fact that they are elected by the shareholders at each annual meeting). The members of the committee shall serve until their successors are elected and qualified.

SECTION 2. In case of vacancy in the membership of the Supervisory Committee the remaining members of that committee shall fill such vacancy until the next annual meeting.

Note. In Massachusetts the duties of the Committee are fixed in the law. North Carolina by-laws provide that the Committee "shall meet at least once every three months to audit the books of the credit union and make reports of the same to the members. The Committee shall inspect the securities, cash and accounts of the Credit Union and supervise the acts of its Board of Directors, Credit Committee and officers. At the close of the fiscal year the Committee shall make an audit of the books, an examination of the records, etc., and report to the members" and the Committee may, by unanimous vote, suspend members of the Board, the Credit Committee or officers and call the members together to act on the suspension.

Article XI

OFFICERS AND THEIR DUTIES

SECTION 1. The officers of this corporation shall be a President, a Vice-President, a Clerk and a Treasurer, who shall be elected at the meeting of the Board of Directors

immediately following the annual meeting of the members, and shall hold office until the Board of Directors shall choose other officers to succeed them.

SECTION 2. The duties of the President shall be to preside at meetings of the members and of the Board of Directors, to countersign all checks, notes and drafts of the corporation, and to perform the other usual duties connected with the office.

SECTION 3. The duties of the Vice-President shall be to perform the duties of the President in case of the absence or disability of that officer.

SECTION 4. The duties of the Clerk shall be to keep correct record of meetings of the members and of the Board of Directors. He shall give notice of all meetings of members in the manner prescribed in the by-laws, and shall perform all other duties incident to his office.

SECTION 5. The duties of the Treasurer shall be:

- (a) To serve as the active manager of the corporation under the orders of the Board of Directors.
- (b) To sign all checks, notes and drafts drawn by the corporation.
- (c) To have charge of the cash, securities, books of account, and other valuable papers of the corporation, said books and accounts to be at all times open to the inspection of the Board of Directors, the Credit Committee or the Supervisory Committee.
- (d) To, within seven days after the close of each month, prepare a balance sheet of the books of the corporation which shall be attested by at least one member of the Supervisory Committee and shall be displayed in a conspicuous place in the office of the corporation, where it shall remain until replaced by the balance sheet of the succeeding month.

The Treasurer shall give a bond to the corporation for the faithful performance of his duties, in such amount as the directors shall prescribe the premium of which shall be paid by the corporation.

He shall within forty-eight hours after receipt deposit all funds in his possession in the bank or banks of deposit prescribed by the Board of Directors, and all payments or withdrawals of money for any and all purposes shall be made by check drawn on such bank or banks.

The Treasurer shall not directly or indirectly borrow from the corporation or become surety for any loan made by the corporation.

Article XII

MEETINGS OF MEMBERS

SECTION 1. The annual meeting of the members shall be held at Blank on the (in Massachusetts the fiscal year of all credit unions ends October 31st and the annual meetings are held in November—in North Carolina the fiscal year ends December 31st and the annual meetings are held in January).

SECTION 2. Notice of all meetings, either annual or special, shall be given by the Clerk, who shall, at least seven days before the date of the meeting (post a notice—send notices to the members or advertise the fact of the meeting. North Carolina provides for mailing notices).

SECTION 3. At annual or special meetings blank members shall constitute a quorum (the number is small enough to make business possible. In North Carolina "one-third of the members in good standing shall constitute a quorum"). If no quorum is present an adjournment shall be taken to a date not less than seven days thereafter, the decisions of which second meeting shall be binding, what-

ever number of members shall be present. Written or printed notice of said adjourned meeting shall be given by the Clerk to each member not less than five days previous to the date thereof.

SECTION 4. The members at their meeting shall fix:

- (a) The maximum number of shares which may be held by any one member.
- (b) The maximum amount of deposit which any one member may make
- (c) The maximum amount of credit which may be granted to any one member.
- (d) The amount of the entrance fee for the ensuing year.
- (e) The proportion of the profits, not inconsistent with the statutes which shall be set apart as a guaranty fund.
- (f) They may, upon recommendation of the Board of Directors, declare a dividend.
- (g) At meetings called by the Supervisory Committee under the provisions of Section 16 of the Act, the members may by a two-thirds vote of those present, and upon the recommendation of a majority of the supervisory committee, remove from office any and all of the members of the Credit Committee or of the Board of Directors.

SECTION 5. No shareholder may vote by proxy, but a firm, society, or corporation having membership in the corporation may be represented by one person authorized by said firm, society or corporation to represent it.

SECTION 6. All elections shall be by ballot.

Note. As has already been noted many of the powers reserved in Massachusetts to the members are exercised in North Carolina by the Directors. The North Carolina by-laws contain an order of business—a provision that, if a member is sick, his vote may be cast by proxy but that one member shall not cast more than one vote by proxy.

Article XIII

GUARANTY FUND

SECTION 1. No unpaid loan shall be charged against the guaranty fund except in case the Board of Directors and Supervisory Committee are satisfied that such loan is absolutely uncollectable, in which case the interest and fines may be abated and the balance of the loan, after deducting all interest and fines which may have been collected, may be charged to this account.

SECTION 2. The interest and fines deducted in accordance with Section 1 of this article shall be debited to the interest and fines account of the current year.

SECTION 3. No amount, other than an unpaid loan, shall be charged to the guaranty fund, except by vote of both the Board of Directors and the Supervisory Committee, nor without the approval of the Bank Commissioner.

SECTION 4. In case of the recovery of the amount of a loan which has been charged to the guaranty fund said amount shall be credited back to the accounts from which it was withdrawn.

SECTION 5. The guaranty fund, whenever it shall amount to one hundred dollars or more, shall be kept on deposit in a bank selected by the Board of Directors, as a separate account, and no loans or withdrawals shall be made from the same except with the approval of the Board of Directors and the Supervisory Committee. The object of this provision is to keep the fund available for any case of extreme urgency, such as sickness or death necessities.

Note. The North Carolina by-laws provide for a reserve fund of 25% of the net earnings each year and that "after the payment of the organization expenses, all entrance fees, fines and transfer fees shall be known as reserve income and shall be added at once to the reserve fund" and, further, "the reserve fund shall be the property of the credit union and shall be held to meet contingent losses and no share therein may be claimed by any member except upon dissolution of the credit union."

Article XIV

AMENDMENTS TO BY-LAWS

SECTION 1. The by-laws may be amended by the members at an annual or special meeting by a three-fourths vote of those present provided that notice of said meeting shall have specified the questions to be considered.

SECTION 2. No proposal to amend the by-laws shall be considered by a meeting of the members unless it has first been presented to the Board of Directors, by whom it shall be referred to the members with a statement that said Board of Directors either recommends or does not recommend that it shall be adopted.

(In North Carolina the proposed amendment must first have the approval of the Superintendent of Credit Unions.)

Massachusetts by-laws do not contain details as to method of dissolution as the law provides how a credit union may be dissolved. The North Carolina by-laws contain the following section:

DISSOLUTION

SECTION 1. At any meeting specially called to consider the subject, four-fifths of the members of the credit union, upon the unanimous recommendation of the Board of Directors, may in person consent that the credit union shall be dissolved, and shall signify such consent in writing. The credit union shall then be dissolved in accordance with the statute under which it was organized.

SECTION 2. In the event of liquidation, distribution of the assets of the credit union shall be made in the following order:

(A) Repayment of money borrowed including accrued interest.

(B) Payment of other legal obligations to non-members.

(C) Payment of deposits, including accrued interest.

(D) Pro-rata apportionment of the balance among shareholders.

The North Carolina by-laws contain a few provisions, which are not contained in the typical Massachusetts credit union by-laws. They include the power in the Superintendent of Credit Unions to call special meetings of the members; a provision that "no officer, director, attorney, committee member, clerk or agent of the credit union shall, as an individual, discount or directly or indirectly purchase from another a share in this credit union, whether filed for withdrawal or not"; a provision that "no loan shall be made by the credit union unless security therefor is taken." The term "security" shall include an "endorsed note" (many Massachusetts credit unions make loans up to fifty dollars on the unsecured note of the borrower); that "the main purpose of the credit union is not to make commercial profits, but to supply credit to its members on favorable terms. But dividends, not to exceed 6 per cent per annum may be declared out of the undivided profits, if such profits are sufficient, by the Board of Directors at their annual meeting immediately following the annual meeting of the members." The following section is contained in the North Carolina by-laws. "Members shall be individually responsible, equally and ratably, and not one for another, for all the contracts, debts and engagements of the credit union to the extent of the amounts of their stock therein, at par value thereof in addition to the amount paid in or due to be paid in on such shares."

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